CPA CHARTERED PROFESSIONAL ACCOUNTANTS

Season 8 – The future of labour is here

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Episode 1: Interest Rates, Inflation, and I

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DORETTA THOMPSON

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Hi, you're listening to Mastering Money, where we explore the many aspects of good financial decision making. I'm Doretta Thompson, financial literacy leader for Chartered Professional Accountants of Canada. We provide no-cost programs and free online resources that help Canadians own their finances and learn the language of money.

This season, we're looking at the future of work. We'll be diving into hot button topics like how interest rates and inflation will affect our every day, how to prepare ourselves and our children for the accelerating speed of change in the workplace to the AI technologies that might replace our jobs.

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DORETTA THOMPSON

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We're beginning this series of conversations with CPA Canada's own chief economist, David-Alexandre Brassard, who will help us set the context of our current economic climate and how it's likely to affect the future of work. Specifically, we'll be looking at the impact of what's top of mind for many of us right now-- interest rates and inflation. David-Alexandre, welcome to Mastering Money.

DAVID-ALEXANDRE BRASSARD

00:01:21.11

Hi. Doretta. Thanks for having me.

DORETTA THOMPSON

00:01:22.80

So before we begin, why don't you tell us a little bit about yourself and how you became an economist.

DAVID-ALEXANDRE BRASSARD

00:01:30.62

As I was looking at my future like everybody does when they're very young, I tried to understand what interested me and the nuance of decision making was my main interest. And economy seemed a topic that interests meaning. There's always trade off, and it's never really black and white. It's always great from an economist landscape, and that's how I started to study this topic.

DORETTA THOMPSON

00:01:55.23

Well, you've landed right now in a very, very interesting time in terms of things not being black and white.

DAVID-ALEXANDRE BRASSARD

00:02:01.61

Yeah, exactly, especially now in the polarizing environment, I think, economic theory makes even more sense.

DORETTA THOMPSON

00:02:08.31

So let's start with inflation. What exactly is inflation, and how is it calculated?

DAVID-ALEXANDRE BRASSARD

00:02:13.80

So inflation, to make it simple, is the average pace at which price increase. That could be in an economy in a country, in a province, or even in a smaller region. In order to calculate it, it's a 2-step process.

First off, you've got to look at what consumers are buying and see what are the different components of those spending. So whether that be rent, transportation, food, energy. And the second step, of course, is to see how much those different components move in prices. So what you do to have a general inflation statistics for a country such as Canada, you look at what the average consumer buys in all those goods and services and you make an average of how much the price of those different items are moving.

So ultimately, it means that you can have an inflation statistics, as I said, for the country. You can have one for the province, and even for some larger city if you have the large data samples that it requires. So it means that, as we've seen in the last two years, we can bundle up different components of inflation to analyze it in a way that we want to.

DORETTA THOMPSON

00:03:18.32

So then why is it that we have a target inflation rate? We're hearing a lot of this in the news. Obviously, right now, we've got the Bank of Canada that is trying to sort of slow down, put the brakes on the economy by raising the inflation rate. Why do countries have a target inflation rate? And the one they always talk about is 2%. What's magic about 2% inflation?

DAVID-ALEXANDRE BRASSARD

00:03:43.81

Inflation kind of goes hand in hand with economic growth. So if you want growth, that is an economy that's producing and consuming more goods and services or better quality goods and services, it requires more money in the system. More money in the system can come through multiple ways either financial institution lending more money or a direct intervention of the Bank of Canada. But what happens is that additional money creates a push on prices, which we call inflation.

So, as I said, a requirement for growth but generally when we look at inflation targeting, it started in the 1990s when we had some pretty steep inflation. And what we want to avoid with inflation is you don't want high inflation and low growth. If you have high inflation, you want high growth.

But what we're seeing in the targets that we have put forth is that you need some predictability because once inflation goes too high, consumers expect inflation to remain high. They ask for higher wages. And in turn, businesses have to raise their prices in order to pay those wages, and you kind of have an inflation spiral. And that is what we want to avoid with low inflation.

The 2% came about early 2000, and the idea was that they noticed that it seemed to offer some predictability. That 2% is the target for most high-income countries. Think of the EU, the US, the UK, Australia, and so on. But in Canada, what we do is that we have an acceptable range. So we say that it can go from 1% to 3%-- up 1%-- up and down from the 2% point. And yeah, so that's where we go.

Generally, lower-income countries, which are prone to having higher economic growth, they have a slightly higher inflation target rate anywhere between 3% to 5% for the most part, with some being in the higher single digit side. So that's the history of the 2%.

DORETTA THOMPSON

00:05:33.08

OK, so one of the things you're talking about inflation on a country basis or a provincial basis in Canada, a municipal basis. What about on a household basis? I mean, we hear that inflation right now, I think-- and I should say, we're recording this podcast at the end of July, and the last inflation announcement rate was I think about 2.8%. And yet, for households, that's not the rate they are seeing in their household because of mainly, I think, food prices. And I think it was declining gas, et cetera, energy costs. So how does that work when what we hear on the news about the inflation rate does not reflect our own experience of what inflation is doing to our budgets?

DAVID-ALEXANDRE BRASSARD

00:06:19.63

It's an interesting question because it goes back to what I said about what you're buying and what you're spending money on. So basically, if you look at on average in Canada, people spend about 70% of their budget on food. I think you kind of targeted an important component of inflation.

If you're a lower-income household, you're more than likely spending more than 17% of your budget in food. So what does that mean for the inflation that you're experiencing? While food inflation is very high and it is the most sticky component of inflation right now, so it means that you could be experiencing a higher inflation because you have to spend more on food.

Maybe extending on your reflection, if we look at it from a provincial perspective, most Canadians know that people in Ontario and in British Columbia spend more on housing, whether that be rent or renovations. So for them, if those components of inflation increase more, they're going to be hit more on that front.

Maybe an example that can apply to them quite simply we've seen the Bank of Canada increase interest rates for households. It means that they pay more for their mortgage. So that component that's included in inflation that's going to hit harder in BC and in Ontario. So again, a multitude of experience with inflation depending on what you're spending on.

DORETTA THOMPSON

00:07:35.54

So what is then the situation generally about inflation in Canada right now? How is it likely to get into that scenario of kind of stagflation? And I remember those days where you had rapidly rising income rates but no increased productivity.

DAVID-ALEXANDRE BRASSARD

00:07:53.03

I think I need to take you back to the pandemic to kind of understand the whole dynamic. Following the first lockdown, inflation was very low-- stayed under 1% annual growth for the remainder of 2020. It quickly caught up in 2021. We started hearing about supply chain disruption. Basically, what it meant was that businesses were not able to supply the goods and services that the economy needed.

COVID supports was allowing demand to remain strong. So this led to more money chasing less goods, and thus inflation climbing. By mid-2021, inflation was over 3% year over year. It kept increasing to reach 5% in early 2022.

Russia-Ukraine conflict began, made commodity prices, namely wheat and oil climbed significantly. This put even more inflation pressure. We reached a peak on year over year inflation in June 2022 at 8.1%. What happened onward was the supply chain disruption started easing in the fall of 2022 and in early 2023. And along with higher interest rates, this has led inflation to come back down, as you said earlier to 2.8% year over year in June 2023.

What we see right now is that there's still some pressures on the supply side of the economy. We have an aging population. So that means that there's pressure on the workforce. But what we notice is that interest rates seems to be high enough to slow down demand. So we don't seem to have additional price pressures.

And from the June number, although it's only one data point, it would seem to indicate that we are in the process of avoiding the possibility of inflation spiraling even because the initial cause of inflation are no longer as impactful. So moving forward, I'm-- again, I'm quite hopeful based on what I saw in June 2023, but I'm not as hopeful on the growth side.

You mentioned stagflation. It's high inflation and low growth. We could see inflation go back to what we expected to be, but we might be in for a lower growth environment.

DORETTA THOMPSON

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So can you give us some examples of what inflation amounts to for Canadians?

DAVID-ALEXANDRE BRASSARD

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So since inflation compounds and rarely goes down, I usually like to do this discussion looking at, once again, pre-pandemic because it was a period of high inflation. So since February 2020, overall inflation is up 14.5%.

What does this mean? The average consumer in Canada is paying 15% more for his overall consumption than they did 3 and 1/2 years ago. Once again, we can break it down by goods and services because we track those components. And this 15% is an average. So it means we've got stuff over that average and stuff under that average.

We talked about food inflation, one of the big one. Overall, the food of price in that 3 and 1/2 years increased by 21%. I looked at the data. We could find such a rapid pace of price increase for food. And I had to go back 40 years, so indicating that food inflation is very, very high.

And keep in mind once again when I say 21%, It's the average food. If you look at elements such as eggs and flour, it's up close to 30%. The cost of furniture has also gone up by more than 20%. We've got refrigerators and freezers being close to 25% more expensive.

And if we look at transport, we've all seen the price of gasoline go up significantly. Although it's a more volatile component. We've also seen the prices of vehicles go up by 15%. So, as I said it compounds, and the experience that we have of inflation depends on what we bought or needed to buy in the last three years. So it's a big thing for Canadians.

DORETTA THOMPSON

00:11:31.06

Can you explain a little bit about how different Canadians then experience it differently because I think that's something that people really struggle with? It's like my understanding of the world, your understanding of the world how it works is 80% based on our own personal experience. And so if that doesn't align with the sort of big picture thinking, that's where you get some really serious disconnects, right?

DAVID-ALEXANDRE BRASSARD

00:11:55.03

Yeah, I think the big elements to consider is that we often don't notice when price increases suddenly. So a small increase in price, but we do notice when we see larger discrepancies, whether that be five 10% or 15%. And I think the frequency at which we see those price increases can have an impact on our mindset and, of course, on what we expect for the future.

And I think that's why having a low inflation target is important because it works on what we see for the future and how predictable it is for us. And again, the way we spend and where those discrepancies are going to hit us will make our inflation experience different from one another.

What does this mean? The average consumer in Canada is paying 15% more for his overall consumption than they did 3 and 1/2 years ago. Once again, we can break it down by goods and services because we track those components. And this 15% is an average. So it means we've got stuff over that average and stuff under that average.

DORETTA THOMPSON

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So I think you've given us a really good picture of what inflation is, why high inflation is not a good thing, and why people can experience it very differently, particularly the higher your income, the more differently you experience it because if you are at the lower end of the income scale, the necessary things in life going up, those are not things you can change. You still need to eat. You still need to pay your rent, et cetera. What about the relationship between inflation and wages? What are you seeing right now? What do you expect to see? Has inflation started to look at that kind of wage spiral?

DAVID-ALEXANDRE BRASSARD

00:13:15.24

So on the wage front, the dynamic of what we see in the last three years was particular. During the lockdowns, we saw a significant portion of lower paid jobs lost, and some workers moving to a better paying jobs. So if you couple that with the lower initial inflation, this led to a growth in real wages.

Real wages are wages adjusted for inflation. But when inflation started creeping up and reached the 5% and even higher year over year, the wage growth was unable to keep up. So this has meant a loss of purchasing power for workers. Only now do we see average wage growth on a comparable level to inflation. More recently, it was a bit higher than inflation. So hopefully, we might see some catching up to inflation.

Regarding your question around will it spiral? I don't think it will on the wage front mainly because the high interest rate environment is constraining the economy. So I don't suspect businesses will have necessarily the margin to raise wage that much.

However, there's maybe one thing to keep in mind when we look at household versus averages. Even if we see the average looking a certain way for an individual, there's a very real race against inflation. And if you want to keep your wage increasing, it's rare that you see large adjustments in your current job. It's rare to see a 5%, 10%, 8% adjustment year over year. So I suspect there's probably job hopping a little more that's going to happen due to workers wanting to keep up with inflation. So that's another consideration out there.

DORETTA THOMPSON

00:14:43.85

And what about minimum wage? Are we seeing any trends there?

DAVID-ALEXANDRE BRASSARD

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What we're seeing in the minimum wage within the provinces is that they've generally kept up with inflation since the pandemic. So provinces have been raising it more. We only see two provinces, I think, where minimum wage have not kept up as well. And there's the federal minimum wage that has not kept up, but the federal minimum wage only applies to certain federally regulated sectors, so not as widespread as provincial sectors.

I think that when we talk about minimum wage and overall average wage, I think the important question is why are full-time workers more involved? Because, usually, minimum wage applies more to part-time work, and often it's heavily weighted on younger demographics, not to say that it's not important for their wage to keep up. It is, but they're less likely to support a household. So usually, when I look at those things, I try to look at full-time work to get a better sense of whether or not the average family can keep up with inflation.

DORETTA THOMPSON

00:15:42.50

And are there ways that inflation affects the labor market in ways other than wages?

DAVID-ALEXANDRE BRASSARD

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Yes, there are when we think about our individual decision making. If we see the cost of living, as I said increased by 15% in 3 and 1/2 years, you're bound to have to question yourself around do I have enough money? So I suspect that the labor market is very strong right now.

We have more people working than we've ever had in recent history and even looking further. I think, more people are working in part due to the inflationary context because we see, whether that's people 15 to 24, 25 to 54, 55 to 59, 60 to 64, and even retirement age people 65 and over, they're working more than they have before. What we're seeing is some the gains are made from reduced unemployment rate, meaning people-- more people are working because they're finding jobs.

But there's also another trend in the labor market. Women are working more than ever. So I suspect the reality of needing two income is even stronger in an inflationary context. We see gains for women that have children because of what we the childcare stuff that we put forth in the last year, but we also see gains for women that are 55 and over, meaning they're more likely extending their careers because the retirement nest egg is a very real concern for them. So yeah, inflation I suspect is behind some of the strong labor market stuff that we're seeing.

DORETTA THOMPSON

00:17:09.11

So is that why we're not really seeing any movement in the unemployment rate?

DAVID-ALEXANDRE BRASSARD

00:17:12.98

I would suspect so. You don't have that much control whether you lose your job or not, but you do have some semblance of control on how long you stay unemployed, meaning how long you take before you decide to take another job.

And I think that when the cost of living is increasing significantly, I think we can assume that some unemployed Canadians can be less picky and more eager to go back into the workforce to get a pay check once again. So it would make sense that the duration of unemployment is going down and. When you look at unemployment rate at any point in time if people are getting back to the workforce faster, your unemployment rate is going to stay lower just by design.

DORETTA THOMPSON

00:17:53.56

What about people on fixed incomes-- retirees, people on pension incomes, disabled people, et cetera, how are they being affected?

DAVID-ALEXANDRE BRASSARD

00:18:03.39

OK, so if we start the conversation around retirees, I think, there's-- of course, the first consideration is how big your nest egg is, and the second consideration is how inflation proof exactly is your retirement plan. So, on one hand of the spectrum, of course, Canadians with a large retirement fund will be better off to deal with high inflation. They have more discretionary spending like not necessarily spending that they can play with.

So there's a larger margin for them to play on, but interestingly, lower wealth or low income seniors who rely almost entirely on federal benefits for their retirement, they're also less at risk in the sense that those benefits are adjusted for inflation. So even if they're poorer all things considered, their situation is not worsening.

The ones that are more impacted in terms of retirees are the one in between-- so those that nest egg is not as big as the richer retirees and also the retirement plan is not as inflation proof. So I suspect that there's a lot of people in between, let's be honest, and I suspect that they'll be responsible for joining back in the workforce. As for people that are disabled, again, it will depend on how inflation proof the money coming in is.

DORETTA THOMPSON

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So what about immigration? How does that fit in, David-Alexandre? We're seeing very high levels of net immigration to compensate for a birth rate that's well below replacement level. But given the current state of the economy, the current state of growth these pressures, what is the impact of immigration?

DAVID-ALEXANDRE BRASSARD

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So the question of immigration is full of nuance and particularly complex, and especially in the short term. So when you're a Canadian whether you're born in the country or outside of the country, you're going to have an impact on labor supply. You're going to offer yourself for work, or you're going to be an entrepreneur.

But you're also going to impact labor demand because you're going to be a consumer, you're going to use public services, you're going to apply pressure on the system. And for people that are newly arrived in Canada, the employment rate is slightly lower. It's understandable. They're coming to a new country. They don't have their network.

Sometimes, they have some issues with credentials, but the impact on labor demand they could require additional public services. They have to learn the language. There's some immigration stuff that they need to work through. So the overall impact in the short term is not super clear. It becomes positive over time for sure, meaning that immigration is a long-term game.

So in the context of having a high inflation, immigration could have a positive impact. As I said, it's not clear. I do think that labor market conditions and economic growth should be consideration when we think about our immigration target.

For example, if we suspect that the end of 2023 and 2024 could have an economic slowdown due to higher interest rates, we could be thinking about keeping immigration target a bit lower to make sure that every immigrant that we have can find a job and to not have bigger impacts on potential unemployment growth.

DORETTA THOMPSON

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You mentioned interest rates. What role do interest rates play?

DAVID-ALEXANDRE BRASSARD

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So interest rates play a very big role. Put simply they make-- they make every kind of debt more expensive. So on the economy side, it's going to slow down businesses who rely on debt for their activities. If we think about high-growth industries they do depend more strongly on debt. And industries, such as real estate, for example, is going to be impacted as well if interest rates increase.

But on the consumer side, so we have different types of debt as our listeners are aware. So whether you have a mortgage, a car loan, a line of credit, or a credit card, the interest that you pay on every single of those is going to go up when interest rates go up. By design, it's also going to limit the access that you have to financing.

So for homeowners or people that want to own homes, the amount of loans that they're going to be able to get is going to be smaller. That's kind one of the goals of increasing interest rates. They want to slow down the growth of housing prices. And of course, Canadians that are going to have to renew their mortgage, they will be locked into higher interest rate payment.

Maybe there's one thing to keep in mind since most people are on five-year mortgages, most Canadians right now have not renewed their mortgage. So there's a consideration there. And of course, for more indebted household, the snowballing of debt can happen even faster than before.

And keep in mind, we still have 30% of Canadians who do carry over credit card balances past their billing cycle. So all in all, I think, Canadians have to be even more careful and wary about the cumulating debt than before because of higher interest rates.

DORETTA THOMPSON

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So what is your take then on this current context? We're seeing a lot of, I think, what people would say frightening trends, although interest rates do seem to be moderating. Are we in some kind of perfect storm facing Canadians?

DAVID-ALEXANDRE BRASSARD

00:22:56.29

I would not characterize it as a perfect storm because of the strength of the labor market. It remains resilient, and since we have an aging population, many Canadians are more than likely to remain employed even in an economic slowdown. Many economists are not forecasting a significant increase in unemployment rate, even though some of them are seeing a recession in the future.

However, we can certainly say that the situation is not improving for consumers. We are seeing increases in consumer insolvencies-- 20% year over year increase. We had significant lows-- keep that in mind-- during the pandemic, but right now, we're getting back to where we were prior to the pandemic.

There's also concerns to have for younger Canadians people starting a family. Will they be able to close in on a home, or will they have to pay significantly more for their mortgages? That's one of my concerns as well. But, yeah, a very complex situation for Canadians all around.

DORETTA THOMPSON

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Yeah, I think that's an interesting point you made about these year over year comparisons because we're into year over year comparisons. Now we're comparing to a very abnormal time. It seems to me that we also have to be looking back to 2019 comparisons. That is a slightly more normal or a lot more normal kind of economy.

DAVID-ALEXANDRE BRASSARD

00:24:11.84

Yes, of course. There's quite a bit of the pendulum going back.

DORETTA THOMPSON

00:24:15.71

OK, so you talked about interest rates 30% of Canadians who carry over a balance on their credit cards. What about mortgage rates and renewal rates? I mean, you did say that not everybody is renewed yet.

I think the number is something like 28%, 30% have so far been affected by-- a lot of people have five-year fixed mortgages. And so every year, we're going to see more people directly affected. What do you think is happening there. What's your sense of what's going on and what it's going to mean?

DAVID-ALEXANDRE BRASSARD

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So, yeah, you mentioned the 28% renewing. The math on that is pretty simple. We've been increasing interest rates for a year and a half, and the split for the five years is about equal. So every year you're going to have 20% more people renewing their mortgages.

Well, what we're seeing in the data is that we are not seeing more mortgage default from the side of consumers. And that's a bit surprising because when interest rates make a jump of more than four percentage point, you're expected to see more default.

But what we are seeing is that financial institution when you are renewing your mortgage, they're allowing the amortization period going back to 25 years. So this means that some mortgages are over the 25-year amortization period. We've got 30% of mortgages that are even North of 30 years. So that's a change. People are going to pay their house for longer.

There's also some banks that are allowing the loan to negatively amortize, meaning essentially heading up unpaid interest to the principal to help borrowers adjust to higher rates. This, to me, is a bit concerning. When you're doing those kinds of adjustment on an individual level, of course, the individual is going to like it, but you're adding systemic risk to the financing world.

I would not be surprised to see regulators crack down on some of those tactics eventually to reduce the overall risk. But as I said, you're carrying your mortgage for longer. Is it going to impact career length and your financial decision overall? Probably. And it might mean for some Canadians that we-- retirement ready workers might not have a paid off house like they used to so that could be something moving forward.

DORETTA THOMPSON

00:26:20.39

Yeah, I think this is a really important thing that people understand very, very clearly is that if your mortgage rate goes up. But if your financial institution or your lender is keeping your payments the same, that is going to have an impact on one of two things-- how long you have to pay your mortgage for or, in some cases, say it's actually eating into your equity. I think that's really, really important for people to understand and to make their decisions accordingly, that it's never become more important to think about paying down mortgages, I think.

DAVID-ALEXANDRE BRASSARD

00:26:54.11

Yeah, of course.

DORETTA THOMPSON

00:26:55.19

What about the financial institutions themselves? I mean, have they profited hugely by these mortgage rate rises, the interest rate rises, et cetera? What's going on with the financial institutions?

DAVID-ALEXANDRE BRASSARD

00:27:07.79

It's true that during the pandemic, they've kind of had significant profits. We even saw the federal government implement additional taxes for them. However, when the Bank of Canada raises interest rates, what it does is that it raises the cost of financing for financial institution. So what they do is they transfer that cost to the consumers. So it doesn't directly benefit them right away.

I think that the conversation around financial institution needs to focus on the upside and the downside, meaning even when people pay higher interest rate, as I said, it covers the financing costs. But the idea is, do they have more risk to handle?

So I think comparing Canada to the US can help us understand where financial institutions stand. On the residential front mortgage default, as I said, in Canada, they have not been rising, but it's important to keep in mind that they're much lower than in the US. So the risk for a mortgage that the financial institution has to bear is much bigger in the US than it is in Canada.

But there's also-- we need to consider the commercial side of their portfolio because, of course, financial institution are not only going to lend to consumers. They're going to lend to businesses. And on that front, there's a big risk in the market.

Right now, commercial real estate is really not doing good because of work from home, which is impacting vacancy rate in office buildings. This is putting a serious strain in financial institution, but it's more important in the US much more than it is in Canada because Canada has a much smaller portion of their portfolio in commercial real estate than American banks do. So, all in all, I think financial institution in Canada are going to be able to navigate their way quite well through the current risk.

And one other thing to keep in mind is the sheer size of our financial institution in Canada helps them in this context because the-- our top five financial institution would be in the top five in the US, meaning that our banks are our financial institution are pretty large, so able to bear risk quite significantly. And generally, meaning their portfolio are more diversified by design.

DORETTA THOMPSON

00:29:10.60

And I think there's a real difference in how they're regulated as well.

DAVID-ALEXANDRE BRASSARD

00:29:14.29

Of course, it's a bit more stable in Canada.

DORETTA THOMPSON

00:29:16.85

So all of this information-- the interest rates rise, et cetera, and yet what we're seeing in the media at least is that consumer spending is not crashing the way it was anticipated. It continued to go up, I think, a lot longer than people expected. It does seem to be leveling out now.

And in some cases, I think we're seeing a few little drops, but is there a disconnect between people saying that they're struggling but then the way that the data is telling us money is actually being spent, or is that more a result of what we talked about earlier, which is, if you go back to that whole thing about the basket of goods, which actually is also about these things are experienced differently by people with different levels of income and assets?

DAVID-ALEXANDRE BRASSARD

00:30:07.40

I think there's two points to that question. You're more than likely right on the sense that it depends on what you're buying, but I also think, as I mentioned earlier, it's the pendulum swinging back, meaning Canadians are reverting to old habits when it comes to spending.

The pandemic was marked with historically high savings rate on average across the country. It doesn't mean that every household was saving money, but we've now gone to pre-pandemic level when it comes to saving. So that is, some of those savings are fueling the leftover rebound consumption that we have from the pandemic.

And as you said, we're still seeing some rebound consumption this summer, such as travel, restaurants, or entertainment spending because it was still constrained in 2022 or deemed unsafe by some Canadians maybe. And there's some leftover impact there. But the disconnect is not entirely there in the sense that people are consuming more, but there's financial situation, as we discussed a bit before, is worsening.

Some of that spending is fueled by credit card debt. We again, we're seeing lows during the pandemic. It has started creeping back up right now and I suspect that the upcoming release of credit card data might show the ongoing increases has kept going on that front.

DORETTA THOMPSON

00:31:19.33

Do you think there's a relationship, though, between the sort of media hype and consumer spending that there's some sort of self-fulfilling prophecy going on?

DAVID-ALEXANDRE BRASSARD

00:31:29.25

I think media have a role to play in shaping the public discussion and a role that they often underplay. Maybe before moving on to consumer spending, I think there's a point to discuss about inflation on that front. For example, if you promote a writer content that's priming consumers for long lasting inflation, you're going to have an impact on inflation expectations.

I was kind of surprised when the June 2023 data for inflation were released to see some negative articles because, to me, when I looked into the data, those were the more optimistic statistics on inflation that I've seen in the last two years. So again, there's some role that the media plays out there, but I also think around spending vacations and travels, the Keeping Up with the Joneses is a very real thing. And if you keep hearing in the media that people are consuming a lot or going on traveling, there's part of you that's not going to want to miss out. So, as you said, self-fulfilling prophecy because you're kind of promoting spending and people don't want to miss out. So they're going to spend as well. Probably the media should have more consideration on certain of those topics.

DORETTA THOMPSON

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So big picture then let's summarize here. How does all of this tie into financial resiliency?

DAVID-ALEXANDRE BRASSARD

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So the major concern that I have right now is not inflation by itself. The cost of living have gone up significantly. That's a concern inflation seems to be under control. I am, however, as I said, concerned with a higher cost of living. If the economy growth is not following, that's my concern moving forward. Households are going to be pressed due to higher interest rates and will their wage keep up, and will we see an economic slowdown? That's a thing that's important to me.

I do think that, as I said earlier and you mentioned it as well, most Canadians have not renewed their mortgage yet. So there's more than likely a 70% that are going to renew their mortgage. Will they all renew their mortgage at higher rates? Probably-- probably not at the 5%, 6% that we're seeing now if interest rates start going down eventually, but we're going to have households that are going to be more pressed, and it's going to be harder to balance a household budget in the coming years.

I do think that's where financial literacy and subsequent financial behavior is going to be even more important because houses are more expensive, cost of living has gone up. It's probably harder to make it financially than it used to be. So the fundamentals and the financial behaviors are even more important now than they used to be.

DORETTA THOMPSON

00:33:53.68

Do you see interest rates coming down any time soon?

DAVID-ALEXANDRE BRASSARD

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I would say it depends on how the economy is reacting to the higher interest rates environment. The idea of raising interest rates as much as they did is that if the economy is slowing down, you've got a lot of margin, meaning you can decrease interest rates significantly to boost the economy.

So personally, I'm not convinced that the last two hikes of quarter basis point were absolutely necessary. So what this means is that they could be decreasing interest rates slightly faster if they've overdone it, and we're going to see that in the coming months or in 2024. So we could be seeing them go down. Will they go down to the levels that they were? Probably not, but we could be seeing them going down a little bit if the Bank of Canada is overdone.

DORETTA THOMPSON

00:34:41.05

Thanks so much for this. This has been really interesting.

DAVID-ALEXANDRE BRASSARD

00:34:43.84

Thanks. My pleasure.

DORETTA THOMPSON

00:34:45.07

If you'd like to hear more economic insights from David-Alexandre, join us at CPA Canada's Mastering Money conference November 9th and 10th in Calgary. You can learn more about the conference by following the conference link in the Resource section of this podcast episode.

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DORETTA THOMPSON

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