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INFLATION IN CANADA: A HISTORICAL AND CURRENT ANALYSIS

Inflación en Canadá: Un análisis histórico y actual

Omar El Kadi Janbeih
omar.elkadijanbeih@edu.sait.ca
Orcid: https://orcid.org/0000-0002-5976-932X
Southern Alberta Institute of Technology
Alberta, Canada

Cira de Pelekais
cira.pelekais@floridaglobal.university
Orcid: https://orcid.org/0000-0002-4579-0304
Florida Global University (FGU)
USA

ABSTRACT
This article seeks to explore and assess the ramifications of inflation on the Canadian economy, with an emphasis on its impact on businesses and the general populace. Guided by a qualitative, documentary methodology, the study incorporates a comprehensive review of the current state of inflation in Canada, complemented by insights from Rogers (2023), Armstrong (2023), Heinzl (2023), and Rodriguez (2022). Preliminary findings elucidate the mounting challenges faced by Canadians, from eroding purchasing power to businesses grappling with soaring costs. Notably, the role of central banks, particularly the Bank of Canada, in potentially exacerbating or alleviating inflation is critically examined. While larger sectors like the housing and oil industries have maneuvered to capitalize on the situation, small businesses find themselves in precarious positions, as reflected in the restaurant industry's struggles in Alberta. Furthermore, the discourse delves into potential future scenarios, including the debated proposition of eliminating central banks as a remedy for inflation. Recommendations encompass a call for a balanced approach, emphasizing reforms in central bank policies, coupled with increased transparency and accountability. The article underscores the need for strategic interventions to navigate the multifaceted challenges posed by inflation in Canada.

Keywords: Inflation, Canadian trend, COVID-19, Economic impact, Monetary regulation.

INTRODUCTION

Inflation, a term denoting the rise in prices coupled with the diminishing purchasing power of money, traces its origins to as early as the 16th century and was notably prominent post-World War II. The Canadian Consumer Price Index (CPI) is a pivotal metric that reflects the average spending patterns of Canadian households. While inflation often presents challenges for consumers and entrepreneurs, it plays a crucial role in preserving the value of money and influencing spending behaviors. It's essential to realize that inflation directly impacts investment returns by diminishing their value. Moreover, it can lead to heightened taxes and potentially decelerate economic growth. A balanced CPI is instrumental for a thriving economy.

Historically, the term 'inflation' gained prominence during the American Civil War, referencing the depreciation of banknotes as a currency. Contemporary economists attribute inflation to various factors, including escalated wages, a decline in demand, and pressures to amplify the money supply. Alarmingly, global inflation rates in 2022 mirrored those of the 1980s. Projections suggest that Canada's inflation rate might hover around 2.30% in 2024, tapering to 2.00% by 2025.

The discourse around inflation's root causes has always been a contentious one. While some lay the blame on business magnates for price surges, others point to supply chain disruptions. At its core, inflation is governed by supply and demand dynamics. Instances like an influx of immigrants can lead to increased demand, thereby inflating rental prices. Similarly, a robust economy with abundant job opportunities can lead to wage hikes, causing a surge in prices. Notably, Nobel laureate Milton Friedman asserted that inflation predominantly stems from a monetary surge, often a result of governmental interventions. The monetary stimuli during the pandemic for entities and the public further exacerbated inflation.

Recent years have witnessed a significant uptick in Canada's inflation rates, making the cost of living a paramount economic concern. The escalating prices of essentials and housing have positioned inflation as a pivotal issue, especially post the last electoral cycle. An Angus Reid survey from June 2023, following the Bank of Canada's momentous interest rate increment to 4.75%, revealed that 63% of Canadians perceived the cost of living as their primary concern for the sub-

sequent election (Korzinski, 2023). With inflation on an upward trajectory and the introduction of austere measures to counteract it, Canadians are grappling with savings and expenditure challenges in a tense economic environment. As the nation approaches another election, the discourse around inflation, its origins, and its ramifications on the economy and the private sector is more pertinent than ever.

Possible causes

Economists frequently engage in heated discussions regarding the origins of inflation, and the general public holds varied views on the matter. Some attribute rising prices to the actions of profit-driven businesses, while others point to supply chain disruptions. At its core, inflation is tied to the principles of supply and demand. When an excess of money competes for a limited amount of goods, prices surge, leading to inflation. Consider the real estate sector: an influx of immigrants, with additional financial resources for sustenance, competes for limited housing, driving up rent. Similarly, in a robust economy with abundant job opportunities, wages increase. These elevated wages, competing for the same products and services, result in price hikes. While these explanations are basic, the subject of inflation is explored in more intricate ways by economists.

They delve into various monetary classifications, such as M1, M2, and M3, which denote different tiers of the money supply. Distinguished economist Milton Friedman posited that inflation primarily stems from a surge in the money supply, often due to governmental actions. This viewpoint finds support in the observed fiscal stimulus provided by the government to individuals and enterprises during the pandemic, which contributed to inflation.

Canada's Economic Landscape: Inflation and its Implications

The Bank of Canada's recent measures to combat inflation, notably through hikes in policy interest rates, have reverberated throughout the nation's economic sphere. Elevating these rates inherently leads to higher lending rates, subsequently dampening borrowing tendencies. While this tactic can temper demand, potentially stabilizing prices, it also risks economic stagnation or even an impending recession. With the latest inflation data registering alarmingly high figures, there is prevalent speculation regarding potential further escalations in interest rates. Such increases pre-

sent a double-edged sword: insurance companies might reap unforeseen profits from the float of advance-collected premiums, while homeowners grapple with burgeoning interest expenses.

Since its inception in 1914, the Bank of Canada has employed the Consumer Price Index (CPI) to monitor inflation meticulously. The CPI evaluates the monthly cost fluctuations of a fixed basket of consumer goods, encompassing sectors like Housing, Food, Transportation, and Recreation. Historical data suggests that what was valued at $100 in 1914 equates to a staggering $2,600 today. Moreover, between 2020 and 2023, the CPI indicates a 15.84% surge, translating to an annual inflation rate of 5.02%. This decline in monetary value and consequent reduced purchasing power of Canadians can be attributed to the Canadian government's substantial monetary disbursements during the COVID-19 lockdowns. Initiatives like the Bank of Canada's money-printing spree inevitably debilitated the Canadian Dollar. Factors like the national carbon tax, compounded at various supply chain stages, coupled with supply chain disruptions during the pandemic, have substantially contributed to the current inflationary trend.

Businesses, particularly in regions like Thunder Bay, Ontario, have borne the brunt of these inflationary pressures. A discernible trend is the closing of more businesses than those opening. Rising operational costs, frequent changes in ingredient prices, and the financial implications of constant updates have strained businesses, as articulated by a local business owner, Taylor O'Brien. The cascading effect of inflation has also tightened its grip on Canadian households, with many confronted with dire choices between basic necessities.

Tracing the roots of this rampant inflation necessitates revisiting 2020, the year the world grappled with the COVID-19 pandemic. Commodity giants spanning lumber, petrochemicals, and the service sector faced plummeting demand due to stringent lockdown protocols, leading to price reductions to sustain market presence (Rogers, 2023). Conversely, home-centric goods' providers struggled with demand surges, further strained by a fragile supply chain. As these commodity businesses reduced prices, consumer goods manufacturers were compelled to inflate theirs, triggering a market-wide inflationary spiral. The subsequent years, 2021-2022, witnessed a global resurgence in economic activities. As people endeavored to reclaim their pre-pandemic lifestyles, there was

an unprecedented demand surge for commodities. In a bid to recoup pandemic-induced losses, these industries amplified their prices, further fueling inflation. Concurrently, service industries, having downsized during the pandemic, faced retraining costs and operational challenges with leaner teams, compelling them to transfer these costs to consumers (Rogers, 2023).

Future Implications of Inflation in Canada: A Deep Dive

The present trajectory of inflation in Canada paints a picture of increasing economic strain on both individual consumers and businesses, especially the small-scale and nascent enterprises. Major industries, such as oil and housing, have largely capitalized on the prevailing scenario, escalating their prices and thus reaping substantial benefits. In stark contrast, smaller businesses, for whom every expenditure is critical, grapple with soaring costs, making it even more challenging for them to establish and thrive. (Hirschfeld, 2023; Robinson, 2023)

Between June 2021 and July 2022, the cost of raw materials witnessed a staggering 51.5% escalation (Statistics Canada, 2022). The repercussions of this surge can be vividly seen in Alberta's restaurant sector, where a significant number of establishments shuttered their doors permanently. While Restaurants Canada reported that food sales during this period outpaced pre-pandemic figures, the increased sales came at a cost: menu prices inflated by 6%, and profit margins were razor-thin (Rodriguez, 2022).

The housing industry, often a major player in fueling inflation, has also been hit hard. The real estate value decline surpassed the record lows of the 2008 Financial Crisis. Moreover, with ever-mounting costs of homeownership, a significant portion of Canadians has abandoned the dream of owning a home (Lord, 2023; Simpson, 2023). RBC's projections underscore this sentiment, indicating a 51% spike in home-building costs since 2020's first quarter (Heinzl, 2023). The contemporary Canadian landscape underscores the soaring expenses associated with living, investing, and entrepreneurial endeavors.

Looking ahead, the trajectory remains uncertain. While banks and financial institutions regularly publish forecasts based on their data, predicting the future remains an intricate challenge. Elevated interest rates over extended durations could lead to a surge in bankruptcies among

homeowners, unable to keep up with their increased financial obligations. This could potentially trigger a ripple effect, resulting in deleveraging of extensive debt loads.

The Bank of Canada might find itself in a position to instigate a recession deliberately by hiking interest rates, aiming to curb inflation. Small businesses, the backbone of the economy, stand to face a plethora of challenges: surging supply costs, supply chain disruptions, and suppressed wages. (El Kadi,2020). Taking the lens of an independent restaurant, the multifaceted impact of inflation becomes palpable. As costs escalate, businesses may resort to reducing employee hours or even layoffs. This, in turn, impacts the employees, who might find themselves accepting lower wages in a highly competitive job market. For consumers, the cascading effect results in inflated prices, making services like dining out less accessible. Additional burdens such as heightened property taxes and interest payments further strain these businesses.

The forthcoming era for Canadian businesses and its citizenry appears challenging if inflation continues its current trajectory. While the Bank of Canada's strategy involves increasing interest rates to combat inflation, their goal is to revert inflation to their 2% target by 2028. However, several economists voice concerns, opining that the nation might be on the precipice of a severe recession. With each passing day, Canadians find themselves grappling with an increasingly tense economic climate. As loan renewals loom on the horizon, the predicament deepens. What choices will homeowners and business proprietors make if interest rates on their obligations double?

The Road Ahead: Business Prospects amidst Rising Inflation in Canada

As Canada grapples with a bearish business environment and consumers bear the weight of mounting inflation, the question arises: what is the trajectory for Canadian businesses in the foreseeable future? Current trends indicate a consistent surge in inflation and interest rates. However, financial bodies, particularly the Bank of Canada, are optimistic that the recent deceleration in inflation could signify the commencement of a more stabilized economic phase. The aim is to navigate back to the target inflation rate of 2%, a goal that, if achieved, would bring much-needed relief to the nation's economic landscape (Rogers, 2023).

Interestingly, while there has been observable growth in the labour market and the Gross

Domestic Product (GDP) post the interest rate hikes, these positive indicators might not entirely offset the challenges accompanying inflation. Recent data from 2023 has signaled a dip in the GDP for the second quarter, and alarmingly, the nation's productivity growth is teetering on the brink of stagnation. Over an extended period, this sluggish growth could exacerbate inflation, primarily due to supply shortages, irrespective of the stringent austerity measures implemented. These very measures, though designed to stabilize the economy, could inadvertently deter Canadians from venturing into investments such as stocks, bonds, and real estate, potentially triggering demand shortfalls in these sectors (Armstrong, 2023).

While the current trajectory seems to be veering towards a more controlled inflation environment, a plethora of long-term challenges emanating from the prevailing inflation crisis looms large. Addressing these issues hinges on a collaborative approach between the private and public sectors. The overarching objective would be to restore the Canadian populace's confidence in the economy, which has been rattled by this protracted phase of financial unpredictability.

Several potential solutions could pave the way forward. Elevating wage structures, fostering the growth of new, sustainable industries, and devising strategies to alleviate the financial strain on consumers are imperative. If executed effectively, these measures could rejuvenate businesses and bolster the larger economic framework. Conversely, should Canada falter in curbing inflation, allow unchecked price escalations across sectors, and fail to restore the average consumer's faith in economic stability, the future could be fraught with challenges.

In essence, the pathway to economic recovery and stability is multifaceted. It demands a blend of strategic initiatives, adaptive measures, and a unified approach. Whether Canada can surmount these challenges and usher in an era of economic prosperity or descend into further financial turmoil remains to be seen. The collective actions of its institutions, businesses, and citizens in the coming days will shape this trajectory.

Elimination of the Central Bank: A Panacea for Inflation?

The concept of eliminating central banks to address inflation is not new, but it remains a subject of considerable debate among economists, policymakers, and financial experts. Central

banks, like the Bank of Canada, have historically played pivotal roles in shaping national economic policies, maintaining financial stability, and regulating monetary supply. Yet, some argue that their very existence might contribute to inflationary trends. Here, we delve into this proposition, examining the potential implications of eliminating central banks and its feasibility as a solution to curb inflation.

Central Banks and Inflation: The Connection

Central banks wield the power to influence the amount of money circulating in an economy, primarily through mechanisms like open market operations, reserve requirements, and setting interest rates. In theory, when a central bank introduces more money into the system, it can lead to inflation as there's more money chasing the same amount of goods and services. Critics argue that central banks, in their bid to combat economic downturns or stimulate growth, often resort to printing more money, inadvertently fueling inflation.

The Case for Elimination

Natural Regulation: Proponents of eliminating central banks believe that the economy can self-regulate. Without a central authority controlling the money supply, market forces would naturally balance out, determining the value of currency based on demand and supply.

Prevention of Artificial Manipulation: With no central bank to intervene, there would be no artificial manipulation of interest rates or money supply. This could potentially lead to a more stable economic environment, with fewer boom-bust cycles.

Fostering Fiscal Discipline: Without a central bank to bail out governments by buying their debt, governments might be more prudent in their fiscal policies, spending within their means and curbing excessive borrowing.

The Counterarguments

Lack of a Lender of Last Resort: One of the critical roles of a central bank is to act as a lender of last resort during financial crises. Without such an institution, economies could face prolonged downturns, with no mechanism to inject liquidity when needed.

Potential for Greater Volatility: While central banks can contribute to inflation, they also

have tools to combat it. Without these tools, economies might experience more frequent and severe economic fluctuations.

Transition Challenges: The process of transitioning from a central-bank regulated system to a free-market monetary system would be fraught with challenges, potentially leading to significant short-term economic disruptions.

Historical Context

Historically, economies functioned without central banks. The gold standard, where the value of currency was directly linked to gold reserves, acted as a natural check against unrestrained money printing. However, this system had its limitations, notably reduced flexibility in monetary policy during economic downturns. The shift away from the gold standard and the establishment of central banks were, in part, responses to these challenges.

It's also worth noting that while central banks can contribute to inflation, they are not the sole culprits. Factors like supply chain disruptions, global geopolitical events, and fiscal policies also play crucial roles. Eliminating central banks might address one piece of the inflation puzzle, but it's unlikely to be a silver bullet solution.

METHODOLOGY

The work was directed following the postulates of the post-positivist approach, a qualitative paradigm, with a bibliographic design, supported by documentary-type research. The collection of information is carried out directly from degree works, articles, doctoral theses and databases, subsequently being emptied into a content matrix, in order to carry out the respective analysis. Supporting all of the above in Pelekais et al., (2015).

CONCLUSION

In conclusion, Canada's present economic scenario is intricately intertwined with inflationary trends, driven by both domestic decisions and global events. As the nation grapples with the economic aftermath of the pandemic and policy decisions, understanding inflation's nuances becomes pivotal for businesses and households alike. The path ahead warrants meticulous strategies, informed decision-making, and collaborative efforts to navigate these challenging economic waters.

While the elimination of central banks might appear as a radical solution to inflation, its practical implications are complex. Such a move would represent a seismic shift in how modern economies function. While there are theoretical advantages to a system free from central bank intervention, the risks and uncertainties associated with such a transition are significant.

As with many economic debates, the answer lies not in extremes but in finding a balanced approach. Perhaps the focus should be on reforming central bank policies and ensuring greater transparency and accountability, rather than outright elimination.

Canada's economic future hinges on strategic decisions, both at the policy level and individual choices. Collaborative efforts, informed choices, and adaptive strategies will be paramount in navigating the challenges posed by inflation.

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