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An economist explains: What is inflation?

David-Alexandre Brassard, CPA Canada's chief economist, explains the cause of rising prices and how you can reduce its impact.

Inflation is something that everybody is talking about and while we all understand its impact on our wallets, it can be hard to understand exactly what it is. Several factors have contributed to the recent rise in inflation. COVID and the subsequent supply chain disruption and labour shortages have driven higher prices for staples such as furniture, cars, gas and food, while the Russia-Ukraine crisis has had an additional impact on oil and gas prices. There could also be spikes in processed food because of the diminished wheat production in Ukraine and Russia.

From March 2021 to March 2022, inflation was tracking at 6.7 per cent. "The last time inflation reached these rates was 1991, where it stayed high for eight months," says David-Alexandre Brassard, Chief Economist, CPA Canada.

The average inflation rate in 2020 was 0.7 per cent, it was 3.4 per cent in 2021, and it's forecasted to be around 5.3 per cent for all of 2022. "It means that we'll have two years of inflation that will be significantly higher than the two per cent long term target of the Bank of Canada," explains Brassard.

To help explain these rising costs, here are some basics on what inflation is, how to reduce its impact and what we can expect to see in the months to come.

What is inflation?

Inflation is based on the **Consumer Price Index**, Brassard explains. "Statistics Canada tracks an average basket of goods and services that people buy and estimates how the price of that basket fluctuates over time."

The basket of goods used in calculations includes eight components:

- Food
- Shelter
- Household operations, furnishings and equipment
- Clothing and footwear

- Transportation
- Health and personal care
- Recreation, education and reading
- Alcoholic beverages, tobacco products and recreational cannabis

Each category contains multiple goods and services. For example, transportation will include the cost of buying or renting a car, as well as the cost of gasoline or public transportation. The basket of goods and services must be updated frequently to account for the changes in consumption patterns of Canadians.

"An increase in prices of certain goods and services can impact multiple categories either directly or indirectly," says Brassard. "The increasing cost of energy for example will impact transportation and shelter directly and can drive up transport prices for imported goods across multiple categories."

Ways you can fight inflation

As consumers see prices increase they may try to reduce consumption.

"That's not always possible," acknowledges Brassard. "Components such as food and gas might be hard to cut back on. You could eat out less or reduce gas usage by working remotely, but not everyone is in a position to do that."

There are several strategies that are gaining traction with consumers facing challenging times. "As people experience financial distress, they are turning to online reused goods markets and co-ownership. The sharing economy can also offer options to consumers," Brassard says.

Some ways to minimize the impact of inflation at home include:

- **Reduce consumption** of items that have risen the most, such as meat and dairy
- **Cook more** to reduce consumption of processed food and eating out
- **Postpone renovation plans**. "Construction prices right now are very inflated. This is something you could hold back on, if possible," advises Brassard
- Try to **extend the life of durable goods** such as appliances, furniture and cars as much as possible. "It's cheaper to repair than buy new ones," he says
- **Take advantage of the resale marketplace** for second-hand goods and consider renting or sharing items that are used infrequently
- **Comparison shop** to find the best prices and seek out coupons for groceries
- **Drive less** where possible

Looking past 2022

Brassard is hopeful that inflation may not remain as high after 2022. "Central banks are starting to increase interest rates in an effort to slow down inflation. Increasing rates makes it more costly to borrow so it becomes advantageous for consumers and businesses to hold money rather than spend it. This, in turn, reduces pressure on the demand side."

While hyperinflation and rapid price increases are often discussed, he believes that scenario is unlikely. "Hyperinflation is defined as when inflation reaches 50 per cent month-over-month. That means your $1 apple in September will cost $1.50 in October. We are miles away from that possibility."

Home ownership feels out of reach for many

A new CPA Canada study reveals numerous economic barriers are keeping potential buyers out of the housing market.

Home ownership is often a life goal for Canadians but breaking into the market continues to be a distant reality for many, according to CPA Canada's latest research.

In **The Housing Headache** study*****, 53 per cent of those polled owned a home, while 45 per cent rented or leased. Of those currently renting or leasing, half (50%) think it is unlikely that they will purchase a home in the future. "Home ownership remains a priority for many yet what it takes to get there is becoming increasingly challenging," says Doretta Thompson, CPA Canada's financial literacy leader.

Just 21 per cent of non-homeowner respondents believe that it is very likely they will own a home one day, and 29 per cent say it is somewhat likely.

The barriers to buying a home

As reported in the survey, **potential rising interest rates** is most frequently cited by Canadians who do not currently own their home as a barrier to ownership (89 per cent). The second greatest challenge reported is affording a down payment (84 per cent), followed by affording necessary renovations (83 per cent) and finding a home in a desired area (83 per cent).

"Renovations and utility costs are the pieces where we're seeing inflation create problems," says Sandy Lyons, CPA and volunteer with CPA Canada's Financial Literacy Program. With inflation likely to be an issue for at least the next year, Lyons says potential homeowners must weigh the cost-benefit analysis of buying a new home versus putting work into an older home where costs for building materials and labour may be harder to predict. See **article about inflation**.

Other obstacles to buying a home included additional costs such as being able to afford taxes and mortgage payments (81 per cent each) and income instability (69 per cent).

Even after breaking into the housing market, homeowners report facing the same challenges that were identified by the renters as initial entry barriers. For example, three out of five current owners reference renovation costs as a financial hurdle and nearly half (46 per cent) continue to struggle with affording basic home maintenance. Mortgage payments are also a struggle, with two-in-five reporting these payments and property taxes as being a challenge. Utility payments continue to be a problem for 35 per cent of homeowners surveyed.

Age and gender affect outlook

Among non-homeowners, Gen Z and Millennials are most optimistic about their home ownership prospects, with three-in-four and seven-out-of-10 reporting plans for future ownership respectively. There is less optimism among older Canadians who do not currently own their home, as only 38 per cent of Gen X and 13 per cent of Boomers think it is likely that they will someday purchase a home.

Home ownership considerations are more closely aligned along gender lines. The study showed that 93 per cent of women reported interest rate hikes to be of concern, and 85 per cent of men agreed. The same pattern remains with affording a down payment, with 86 per cent of women versus 81 per cent of men referencing this as a barrier.

Making home ownership a reality

For potential home buyers, it's important to keep an open mind, while being realistic about the market. "Shifting your mindset and taking a hard look at expectations can be a good place to start when it comes to managing the housing headache," says Thompson.

Here are some other ways to step closer to the goal of home ownership:

Be realistic about what you can afford:

"Weigh your needs against wants and consider what you can afford based on your income and lifestyle," says Thompson. "For some, that may mean rethinking the size and or location of a housing purchase. For others, it might mean a longer-term rental strategy—or even an indefinite rental strategy—with complementary saving and investment goals to secure your long-term financial future."

Anticipate a down payment plan:

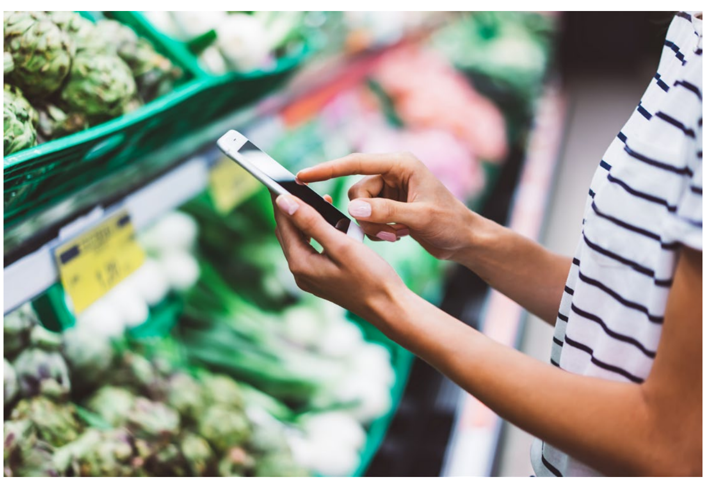
When it comes to figuring out what your down payment needs to be, "Make sure you know what you're getting into by making a savings plan and charting the path forward to the end goal of home ownership," says Lyons. This could involve establishing a new budget or paying off debts to redirect funds towards the down payment.

Maintain a good credit score:

While working towards the savings goal for a down payment, Lyons emphasizes the importance of maintaining a good credit score to ensure an easier process when it comes to buying a home. "Having a good credit score will impact your ability to get a mortgage to begin with," he says. "I can't stress that enough about keeping an eye on your credit score."

The **CPA Canada 2022 Housing Headache study was conducted by Ipsos via their online omnibus from March 24 to April 4, 2022. Two thousand randomly selected Canadian adults participated in the survey.*

The online grocery shopping trend is here to stay



Delivery services for groceries and food exploded during the pandemic, and those reverberations will continue into the decade ahead.

A 2020 study by Dalhousie University's Agri-Food Analytics Lab noted that the decision to use online grocery shopping often coincides with "major life events and transitions," such as the birth of a child or caring for a sick relative. Well, you can now add global health crisis to that list.

Already growing quickly pre-Covid, e-commerce—and by extension online groceries—went super-nova as Canadians retreated to their homes. According to a 2021 study by payment company PayPal, online spending across Canada increased by more than $2 billion per month during the pandemic—from an average of $109 per household to $178.

Not surprisingly, grocery shopping was a key driver in this increased online activity. While only 19 per cent of Canadians engaged in online grocery shopping pre-pandemic, that number had jumped to 30 per cent just one month into the pandemic and to nearly half (49 per cent) after a full year of pandemic living.

According to research firm eMarketer, the emergence of the work-from-home phenomenon was one of the key drivers, with 27 per cent of remote workers and students ordering online, compared to just 19 per cent of the overall adult population. The report said that COVID's recent Omicron wave also damaged the in-store experience and drove more people to adopt online as their default shopping method.

"The pandemic permanently changed people's habits as it relates to delivery," agrees Lola Kassim, General Manager of Uber Eats in Canada. "Everyone picked up this habit of getting food delivery a few nights a week; maybe getting their groceries delivered once or twice a week. What we're seeing is that even as the world starts moving again, people are keeping that new normal. For our business, this is really positive. This trend is here to stay."

Uber launched online grocery shortly after becoming sole owner of the now seven-year-old Latin America delivery start-up Cornershop in 2020, initially making the service available in 19 cities throughout Latin America and Canada. The launch enabled customers in Toronto and Montreal to order from retail partners including Walmart, Metro, Costco, and Rexall through the Uber app.

Delivery has become an entrenched part of Uber's business, accounting for more than half of its gross bookings in the fourth quarter of 2021. According to Kassim, nearly three million people around the world are now ordering grocery essentials on a monthly basis, while people who order something other than a prepared meal on Uber Eats tend to order twice as frequently as restaurant-only customers.

Kassim says that the company's goal for the year ahead is for grocery and other new verticals to "significantly outpace" the growth of its core food delivery service. "With all e-commerce business the level of growth that everyone saw [at] the beginning of the pandemic was unexpected," she says. "The pandemic may have accelerated some people's desire to look for these kinds of options for delivery at your fingertips."

Canada is not alone when it comes to widespread adoption of e-commerce. A March report from Adobe found that Americans will spend a record $1 trillion online this year. Just three categories—groceries, electronics, and apparel—represented 41.8 per cent of all online shopping in 2021, with groceries alone representing 8.9 per cent of total e-commerce spending.

As the world slowly returns to normal and people return to in-person shopping, all signs suggest Canadians will continue shopping for groceries online.

While Canadian forecasts remain elusive, a March report from McKinsey focused on the European market said that online channels could account for anywhere from 18 per cent (conservative estimates) to 30 per cent (aggressive estimates) of the food-at-home market by 2030.

"I think it's going to stick because people have got used to the convenience."

While online shopping was once largely the domain of young, urban, affluent families seeking the convenience of "large-basket delivery" to their home, McKinsey says it has expanded to include more top-up shopping missions and different demographics, including older generations.

"The online market is still in the process of taking shape," says the study. "Currently, a multitude of propositions are partly overlapping but the market's future state will likely mirror existing offline propositions and replace or improve on them."

Elsewhere, a 2021 study by Dalhousie predicted that the Canadian grocery industry "will look very different" from its pre-pandemic state once the pandemic recedes. Based on a survey of 10,024 Canadians, the Dalhousie study found that nearly one-quarter (22.2 per cent) of Canadians plan to buy online regularly. Ordering online for curbside/in-store pick-up is also gaining momentum.

That's good news for the country's major grocery players like Loblaw, Empire, Metro and Walmart, all of which are betting big on the future of online by investing hundreds of millions of dollars in growing and improving their e-commerce capabilities. Another report by Dalhousie pegged total investment in the online space in Canada at around $12 billion.

Toronto retail analyst Bruce Winder, author of the book *Retail Before, During & After COVID-19*, says that while it's not experiencing the same growth it did during the height of the pandemic, online will continue to play an important role in grocery's future.

"It's something that's here to stay," he says. "I think it's going to stick because people have got used to the convenience." Grocery shopping in the future might be a hybrid in-person/online experience, he says, the former used for larger stock-up trips, the latter used for fill-in items during the week.

While the pandemic did expose some weaknesses within the system, particularly in the early days when consumer demand far outstripped capacity and left companies scrambling to fill orders in a timely manner, the country's major services have continued to improve. "They're slowly starting to get the bugs out," says Winder.

All indications are that grocery is poised to become a massive online battleground, and recent years have seen companies across the entire food service space scrambling to grab a piece of a market valued at $3.6 billion pre-pandemic. They range from the traditional grocery giants to category upstarts like Uber and the "OG" of pure-play online grocery services, Instacart.

Instacart launched in the U.S. in 2012 and launched Canada in 2017 through a partnership with Loblaw Companies Ltd. Today, it counts national retailers Loblaws, Shoppers Drug Mart and Walmart, as well as smaller regional players, like Pusateri's and Organic Garage, among its vendor partners. More recently, it has begun expanding beyond grocery, announcing a partnership with the arts and craft retailer Michael's in January 2022.

Recent months have also seen the Canadian debut of so-called ultra-fast delivery services, like Tiggy and Ninja Delivery, which promise 10- to 15-minute delivery to consumers in urban markets. Their model uses so-called "dark stores," which are essentially micro-fulfillment centres that stock a small number of typical grocery items such as meat, eggs and paper products.

"Our society demands instant gratification, and e-commerce is no different."

Arguably the most intriguing subset of the online grocery space, ultra-fast delivery is already well established in many European markets and has been making inroads in the U.S., particularly in densely populated areas that lend themselves to the quick-delivery approach, such as New York City.

"If you build a product that people love, there's always a way to make the economics work," says Ninja Delivery's co-founder and CEO Wesley Yue, who says his company straddles the line between convenience and grocery store. And, while some might question just why we need 10-minute grocery delivery, Yue points out that people were skeptical about shopping online for anything at one time.

Winder says these ultra-fast delivery companies are likely destined to be fringe players for the foreseeable future but could become more mainstream as online grocery shopping becomes entrenched consumer behaviour.

"Our society demands instant gratification, and e-commerce is no different," he says. "What's happened across all e-commerce is that everyone's upping the ante now. We went from delivery in five days to two days, to same day and then, all of a sudden, a matter of hours."

Companies and investors are also aggressively throwing money at the space. Ninja recently secured $2.8 million in funding that it will use to expand into 10 markets in Ontario and B.C. this year, while growing its product assortment from approximately 1,400 stock-keeping units (SKUs) to 2,500.

According to the financial data and software company PitchBook, surging consumer demand created a "wild west" situation in the space last year, with several start-ups securing "mega-rounds" of investment totalling $100 million or more. According to Bloomberg, rapid delivery companies around the world attracted US$9.7 billion in venture capital (VC) funding last year, even though many are increasingly resorting to deep discounting to attract and retain customers.

But it's not just upstart companies that are investing heavily in the online space. In 2020, Empire, which counts the Sobeys, Longo's and IGA grocery banners among its assets, launched Project Horizon—a three-year plan that specifically counted "Win Canadian grocery e-commerce" among its objectives.

Empire, which last year closed on its $357 million acquisition of the Toronto-area grocery chain Longo's—and whose nearly 23-year-old online service Grocery Gateway was a pioneer in Canada's online grocery space—has said that it expects to add $500 million in annual earnings to its bottom line as a result of its investment in the online space.

At the heart of that online strategy is Voilà, a service powered by technology developed by the British company Ocado, which also has partnerships with grocers around the world, including Kroger in the U.S., Morrisons in the United Kingdom and Coles in Australia. It uses vast customer fulfillment centres (CFCs) to warehouse items, with robot pickers allowing it to promise 99.6 per cent order accuracy and 98.6 per cent on-time delivery.

Voilà debuted in the GTA shortly after the pandemic hit in June 2020 and has been a success story in its early days. Empire announced the Ottawa launch of Voilà in April 2022, adding to its existing offerings throughout Ontario and Quebec. It also signalled its commitment to the online space earlier this year, announcing that it is building a new fulfillment centre in the Vancouver area—its fourth facility in British Columbia—promising online groceries will be available to B.C. residents by 2025.

Empire says that its fulfillment centres in Ontario, Quebec, Alberta and B.C. will enable it to reach 75 per cent of Canadian households and have access to 90 per cent of grocery e-commerce spending. "We strongly believe that central fulfillment is the most profitable solution at scale and that Voilà will be the top ecommerce grocery retailer in Canada," said the company.

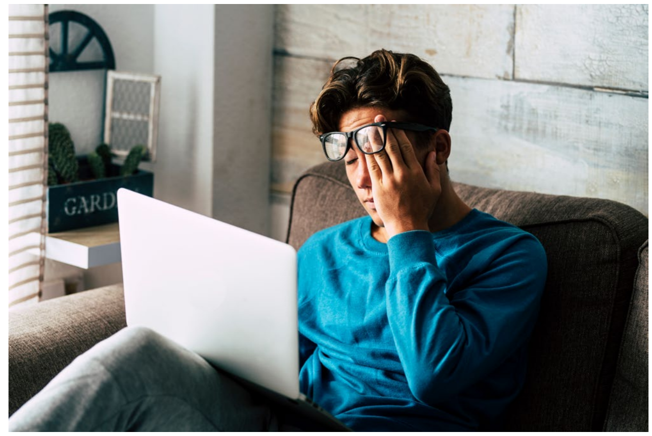
Walmart Canada also announced a $3.5 billion investment in its operations that includes beefing up its e-commerce capabilities. That includes a new 430,000 square-foot delivery hub set to open just outside Calgary in September, which it says will expand its two-day delivery capabilities to 61 per cent of Canadians.

The largest grocer in the U.S., Walmart has the capability to completely upend the grocery category in Canada, says Winder. "They're definitely looking at grocery as a must-win category in Canada." And that's to say nothing of the 800-pound gorilla of online retail: Amazon. While the e-commerce behemoth has mostly restricted its grocery activity in Canada to dry goods, Winder says that any move into fresh by the e-commerce giant has the potential to be a "game-changer" for the category.

According to a 2021 report by Edge Retail Insight (the market research arm of e-commerce consultancy Edge by Ascential), Amazon is expected to nearly double its online food and beverage sales globally over the next five years. Amazon's edible grocery sales are expected to grow by 13 per cent a year through 2026, reaching $26.7 billion. That's second only to the Chinese online giant Alibaba at $34.2 billion.

While supermarkets and neighbourhood stores will remain the largest channel in the sector, accounting for a projected 40.3 per cent of chain retail global category sales in 2021, their share is expected to decline to 39.2 per cent within the next four years, as channels such as e-commerce and discount gain momentum.

The pandemic's impact on students may have long-lasting effects



David-Alexandre Brassard, CPA Canada's chief economist, on the many lessons from the past two years that will help us to move past COVID-19's collateral damage.

There is every indication that the Canadian economy has largely recovered from the pandemic. Economic activity is comparable to pre-pandemic levels and the job market is doing well. As the country emerges from crisis mode attention will have to turn to other pressing issues if a resilient economy is to be achieved.

The past two years have seen a dramatic transformation in the education sector, with a massive shift to online learning (30 per cent of the school calendar between March 2020 and March 2022), extended school closures in some provinces and disruption of extracurricular activities.

The impact? Declines in achievement for many students and student disengagement. While the magnitude of the impacts may vary, we can expect to see similar findings in Canada as in the United States, where declines in reading and math in "pandemic" cohorts can be seen in grades three through eight. Those most impacted, compared with pre-pandemic cohorts, are marginalized and economically disadvantaged students, and the lack of face-to-face education has been most detrimental to students with specific learning difficulties.

Working-age students must also carefully weigh the benefits associated with abandoning education for a current job market in which openings are high and wages are climbing due to a scarcity of labour. Choosing work could leave those individuals vulnerable down the road.

Prioritizing work over education is often not beneficial in the long term because of the many advantages associated with obtaining a diploma: increased employment rates, higher incomes (and the resulting increase in taxes paid), better health and greater civic engagement.

The return to normal must include renewed efforts to narrow achievement disparities among students and to support their educational perseverance and success. We need to pay particular attention to the mental health of young people, which has suffered due to the pandemic.

In terms of health care, the pandemic has strained the system and exacerbated existing problems, such as limited hospital capacity, which in some cases has compounded the need for public health restrictions. Added to that is an aging population and the pressure it will put on health infrastructure. To prevent our hospitals from overflowing year after year we would do well to improve access to decentralized front-line services by improving access to home services, for example. Let's also hope that digital solutions put forward during the pandemic, such as telemedicine, will be among the technologies adopted.

A quick scan of our economy shows that many business sectors have yet to return to their pre-pandemic revenues. Two areas that have been especially hard hit are arts and entertainment, and accommodation and food services which were shut down several times because they were considered less safe. As the risks decrease it will be up to us as consumers to support them and prioritize local consumption of goods. Increasing Canadian economic nationalism would benefit all businesses in this country, particularly SMEs.

It will take courage, especially political courage, to meet all these challenges while also investing in innovation, productivity and the energy transition. It requires vision and detailed planning in addition to adequate budgets. In sum, there is no shortage of priority issues that need tackling both at home and around the globe.

These stories first appeared on CPA Canada's online news site.

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