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How Inflation Affects Your Financial Strategy

If you were going to recommend a treatment plan for a loved one suffering with alcoholism, would you prescribe more alcohol as the best course of action to help them to recover or otherwise improve? Now put this question aside for the moment.

Let us look at the **personal situation of the average Canadian** these days and make some observations about what their circumstances look like as they go about their daily activities in life, work, & family. Then we will tie these real-life situations together with the riddle.

We live in a world of low inflation, less than 2% or so, according to official Canadian Government reports using the CPI (consumer price index) as a measure of the daily cost of living. But the reality for most consumers may be much different than this picture of low inflation being painted by the government over the past few years.

Some of this can be attributed to the decline in the Canadian dollar versus the U.S. dollar by about 20% over the past six years[1]. Since much of our food comes from the U.S. or countries that use the U.S. dollar for trading, then most Canadians will have experienced faster than 2% inflation in their food bills for a few years now.

And food prices are expected to continue rising over the next 1-2 years as the agricultural sector is under pressure to produce normal amounts of food in the face of wet conditions late into the planting season in the US mid-west and parts of Canada. There are also issues in China affecting their crops as well as the slaughtering of a large part of their pig population due to disease. A poor monsoon season in India will undoubtedly affect rice production in that country and there are other various pressures on the global food supply.

The response on the grocery store shelves, as a strategy to avoid passing along price increases so far, has been to reduce package sizes. The bag of cookies, potato chips or package of pasta has shrunk in recent years according to reports from many consumers. We saw the same thing happen in the 1970's when chocolate bars shrunk in size during a period of rising inflation pressure.

Canadian energy prices continue to be under pressure as the **Federal carbon tax regime gets slowly rolled out and is now reflected in electricity and home heating costs**. Again, are these rising by a mild 2%? In fact, are any of the government services we pay for rising by only 2%? Think about license plate renewals, parking fines, property taxes, building permits, water services and any other of the numerous service fees we pay as citizens, in addition to income taxes.

Now, if we substitute the word "alcohol" in our opening sentence with the word “debt” we can connect “big picture” changes by governments around the globe, with the average Canadian's day-to-day experiences. The **governmental solution** to the Great Recession of 2008 was to create more credit (debt), to keep the world economy functioning and buy more time. The hope was that economic growth would eventually allow governments to use increasing tax revenues to pay down the debt and return to normal conditions. It is important to understand that money printing (or credit creation) is a form of inflation.

Most people, and the media reinforces this perception, equate inflation with price inflation in goods and wages alone. So, while that has not been the case so far, it may become the reality in the not-too-distant-future.

Just like the 1970's when rising prices caused inflation pressures to build resulting in things like reduced packaging sizes, we are very likely getting much closer to a point when most Canadians may once again experience higher inflation as a normal reality of their daily lives.

With the help of a professional investment advisor, Canadians CAN prepare for the possible scenario of higher inflation and make prudent adjustments to their financial strategy in order to **safely navigate** this next period of economic history.

Call us today for our latest ideas on how to best position your financial assets against rising inflation. [1]

[1] Currency Charts [2]

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