LET'S TALK INFLATION COMMUNITY ENGAGEMENT 1: INFLATION TARGETING

BANK OF CANADA
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Thoughts on inflation and the economy in Canada

Most of the community members were already **familiar with the concept of inflation** prior to the discussion. Many have noticed that the cost of living has risen during the pandemic and some have changed their spending behaviors as a result.

There was general agreement that **Canada's economy has suffered from the COVID-19 pandemic**. Those who were more optimistic about the Canadian economy believe that Canada will recover once the pandemic ends. Those who were less hopeful expressed their concerns about unemployment rate, consumer buying power and the economic impacts of the ongoing lockdown measures.

In terms of implications for business, **small businesses** were seen as the most vulnerable to closure followed by **tourism** and **hospitality**.

While some had a positive reaction to government assistance to offset economic impacts on Canadians as a result of the pandemic, a few were **concerned about government debt and potential tax increase**.

I have noticed some increases in prices at the grocery store though, so I am watching for sales more often.

So financially that and the rising grocery prices are what we've seen, though we're used to managing on very little, so we have that skill and experience to help.

I think the economy is taking a rather large hit, especially with all of these lockdowns. It is putting the business owners in a hard spot – more and more stores are shutting their doors and moving to online sales.

To conclude, I would say that the pandemic has had a negative effect on the Canadian economy. Many people have lost their jobs, businesses have closed, and the government is taking on more debt to help those who are now unemployed.

I think that the Canadian economy has done well by offering different financial benefits. However, I cannot think of what it would cost us to recuperate from the billions that was given and the effects of long-term sustainability for our economy.

Inflation on Target

We asked community members to rank reasons why some people say it is important to keep inflation on target in order of priority…

1

To keep the economy stable and employment sustainable

2

To keep the cost of goods and services stable and predictable

3

To help money keep its value

4

To help Canadians be able to plan better because prices will be predictable

When it comes to making borrowing and spending decisions, around half of the community members agreed that interest rates affect their decision-making process. Some examples include:

- When interest rates are high, they are more likely to make **spending cuts** and **hold off large purchases** such as houses, cars, furniture and appliances.
- When interest rates are low, they are more likely to apply for **mortgage** and **loans**.

Inflation Targeting - Text

Many were left **more informed** about the economy and inflation after reading the inflation targeting document, especially the very fact that there is a target.

On the one hand, members viewed the information as **"eye-opening", "informative"** and **"easy to understand"**.

At the same time, others questioned the inflation targeting framework and suggested that the Bank to consider the changes in goods and services over the years and reassess their strategy regularly. Specifically, there was interest in gaining an understanding of the **methodology the Bank use to calculate the inflation**:

- What kind of goods and services does the Bank use to measure inflation?
- What demographic does the Bank use to calculate the statistics?

On improvements, some suggested the text to include some **relatable real-life examples** and graphs to make it more relevant and engaging.

TEXT PRESENTED TO PARTICIPANTS

Inflation Targeting

- **What it means**: The Bank of Canada aims for inflation to be about 2 percent. To achieve this, we raise, lower or hold our policy interest rate. The policy rate affects interest rates on mortgages and other types of loans. Lower interest rates generally encourage more borrowing and spending. That tends to lead to higher inflation. Higher interest rates, meanwhile, encourage more saving, which tends to lead to lower inflation.
- **Why the Bank uses this framework**: When inflation is at 2 percent, this generally means that demand for and supply of goods and services are balanced and the economy is performing as well as it can. When inflation is below 2 percent, this often means that demand for goods and services is too low and the economy is underperforming—which usually leads to slower growth and higher unemployment. When inflation is above 2 percent, this usually means that demand for goods and services is too great and the economy is overheating—which can lead to more severe swings in employment and prices.
- **How it affects you**: When inflation is low and stable, prices rise slowly and predictably, and your money maintains more of its value. That makes it easier for you to plan ahead. Low and stable inflation also helps businesses plan ahead so they can invest and hire to supply their customers with goods and services.

In their own words…

I found this pretty eye opening as well whenever you see low rates you automatically think the economy isn't good but it may not always necessarily be that reason. (supply in demand) Always more factors to take into account eh?.

I don't believe the basket of goods theory is valid anymore because it is not the same basic basket year to year that it was in the 70s. Changes are made and one of the real "hidden inflation" schemes that is not accounted for is when the size of containers or the amount in the containers is decreased but prices stay the same.

That was very informative, I had no idea that a small amount (2%) of inflation was a good thing and would have thought that deflation was good. I now understand the concept of inflation targeting and how it benefits our economy.

None that come to mind. The concepts are clear and the language used was not overly technical or used abstract terms.

It would be nice to learn more about how the statistics are calculated in order to determine if the reported inflation rates are accurate or not.

It was all explained quite well. The technical terms were well defined so I was able to follow.

For example, you could add two charts illustrating the 70s—one with and one without inflation targeting to show why it matters and the possible consequences.

It would be helpful to see a full breakdown of how the actual rate of inflation was calculated and which products and items were used in that calculation. And also what the targeted rate is based on and what it is supposed to include.

Inflation Targeting - Video

"Clear", "straightforward" and "easy to understand" were common reactions to the video. The simple diagrams used (arrows and scales) were effective in explaining the relationship between the concepts and effects covered in the video. Those well-versed on the topic (e.g., economics major) concurred that the video is pitched at a "basic" level for a lay person.

There were suggestions to add elements to lessen the video's somewhat **"dull", "dry" and "monotonous" feel**, especially in comparison to the *Inflation over Time* video. These included using colour and picture and graphics being drawn 'live' along the narration. That said, it was pointed out that making it too flashy could take attention away from the information being communicated.

On increasing the video's relevancy, members again suggested including 'real life' examples by **showcasing how an "average" family is affected** in the scenarios discussed or showing the effects through a service / good (e.g., buying a home, groceries). It was also evident that, for the topic to become more personally relevant, it is necessary to use language and examples that acknowledge the financial precarity of some members (i.e., low income, paying off debt).

Outstanding questions or points were few and far in between and mostly centered on:

COVID-19 – the uncertainty and restrictions created by the pandemic means that Canadians are saving despite low interest rates; the effects of government borrowing and how government borrowing during COVID-19 works

WAGES – the fact that wages and benefits do not rise in tandem to inflation and whether any consideration is given on the effects of those living pay cheque to pay cheque

TECHNICALITIES – How was the 2% figure arrived at? What is the inflation now? Are there implications for the "average Canadian" beyond savings, investment and business?

In their own words…

It was a clear and simple explanation of how the Bank of Canada helps keep inflation at 2% - to keep the economy stable and garner confidence for consumers and businesses.

The video is very informative. I found that the graphics were very lack luster - though they do a good job of helping to illustrate the visual aspects. I liked the fact that when it was speaking about the rates, it would show the result on the affected supply/demand, etc. I think having the visuals is key to help explain these concepts.

I appreciated it. While a little basic, it explains the information in an easily digestible short clip. My only addition would be maybe to add some colour or a maple leaf to give it warmth or personality.

The information is excellent, but the presentation was kind of drab. The black and white was boring, and the graphics were pretty basic. What would be fun is more colour. Also, the style of the video could be to draw the graphics as the person is speaking – like a whiteboard video.

I think the video explanation was good, but if inflation is to be keep around 2%, why is it that things like CPP and OAS payments are always lower than 2%?

It does make me think that it is an enormous challenge right now. With the uncertainty of the pandemic, people may be spending less and saving more - despite low interest rates designed to do exactly opposite. So, the 'human' factor seems to be more unpredictable in these unprecedented times.

What resonated better…

VIDEO VS. TEXT EXPLANATION

- The video format over text was generally preferred by members who view themselves as "visual learners" and there was a general sense that the information is easier to digest.
- This is typical in such of our research in this area: explainer type videos are generally preferred for technical topics.
- That said, there were members who preferred reading the information in order to properly digest it.

TARGETING VIDEO VS. OVER TIME VIDEO

- Beyond some members gravitating to the video on inflation over time due to the more colorful and graphical approach, this over time video was also liked due to more examples provided but longer.
- There was a general view that both are fine and complimentary given the differences in objectives: over time providers a historical account vs. targeting inflation provides explanation on the concepts.

Results are based on responses from Let’s Talk Inflation online community.

Approximately 250 community members shared their thoughts on the topics between Jan 6th and Jan 8th, 2021.

The findings presented in this report are qualitative in nature meaning that their value is in understanding the factors, and interplay between factors, behind attitudes and reactions to messaging. They are not intended to be representative of the wider population.

Profile of Community Members

Women	58%
Men	42%
34 and under	27%
35-49	29%
50+	44%
Alberta	15%
Ontario	42%
BC	15%
Quebec	17%
Rest of Canada	13%
English	85%
French	15%

LET'S TALK INFLATION COMMUNITY ENGAGEMENT 2: AVERAGE INFLATION TARGETING

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Top-of-mind Reactions to Average Inflation Targeting Text

Asked to highlight what stood out to them either as a positive or negative in the explanation on Average Inflation Targeting shown to the side, members were more likely to see positives than negatives.

The themes of stability and planning ahead resonated well, as did references to "giving time" for economic and job market recovery. This in turn led to feelings of confidence.

Negatives highlighted tended to fundamentally stem from financial precarity and extreme dissatisfaction or low trust, combined with some misconceptions, towards the banking and economic policy/sector. This latter sentiment was confined to a small handful of individuals.

"Feels right" and manageable to absorb as a consumer

What it means: With the current inflation-targeting framework, the Bank aims for **2 percent** inflation. With *average* inflation targeting, the Bank would aim to achieve the inflation target on average over a set timeframe—say **5 or 10 years**. This means that after periods of inflation below the target, the Bank would aim for inflation to be above the target for a period of time, and vice versa.

The need to stimulating the economy and job growth generally override members' concerns re rising costs .

Why the Bank would pursue this framework: Targeting an average inflation rate would **require the Bank to "make up" for periods** when inflation is above or below the target. As a result, the Bank might need to keep the policy interest rate lower or **higher for longer periods** than it currently does. This could mean, for example, that during or after a recession—when inflation is typically low—the Bank would be required to keep the policy rate low for longer than it would under the current framework, in order to allow inflation to rise above the target. In doing so, the Bank would be giving the **economy and the job market more time to fully recover**.

Evokes feelings of uncertainty and concern for those struggling to make ends meet as well as dissatisfaction by unmatched rising wages over time

Tangible benefit for those with mortgages and a broader benefit for first-time buyers given ever-rising housing market

How it would affect you: You would still be able to **plan ahead**, because the Bank would still be committed to an inflation target. If the economy is sluggish and inflation is low, the policy rate could be kept lower for a longer period than it would under the current framework. This would help **lower long-term interest rates like mortgages**, although it would also **reduce the interest that is earned in savings account**. The goal would be to help the economy and the job market to recover more fully.

Inherently a negative even if they understand the trade-off

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In their own words…

2% inflation rate is quite reasonable – it does not immediately play havoc on affordability and buying power. Even if wages don't keep up every year, it's quite manageable knowing what to expect. Mortgage rates being low is quite welcome for those of us who still have to pay for many years. With housing prices having increased way above inflation rates, the housing market has become quite unaffordable in the last 10 to 15 years. Paying less interest certainly helps individuals and is important in economic recovery as it allows more people to enter the housing market.

It makes me feel more confident and "protected" in a way, knowing that the government could aim for a steady average inflation rate, so I could plan my spending and saving.

This is positive information for the working lower and middle class to know because when the economy and job markets are slow, it is always good to know there are things to help the economy and jobs to recover.

I put negative highlight (red) on the phrase " Targeting an average inflation rate would require the Bank to make up for periods when inflation is above or below the target." I understand why the Bank would have to make up (adjust their policy rates) for those periods […] However, this phrase is what shifted me away from supporting an average inflation rate […] It shows, that by using this framework there is a lot of uncertainty and instability […] If the inflation rate gets too high - we might have to pay way too much in our policy rates. And unfortunately, a lot of low-income workers such as my myself struggle with paying regular things to begin with. We do not like the uncertainty that the policy rate may go up.

It would lower mortgage rates: who wouldn't want lower rates for longer? it would reduce interest that is earned in savings account: I understand the flipside, but doesn't mean I have to like it.

Text vs. Video Explanation of Average Inflation Targeting

Similar to the findings from engagement 1, members tended to conclude that **both video and text were equally informative**. While the video offers a better understanding of the general concepts, the text provides more details of the subject. Some suggested **a combined approach** using both the video and the text to help the audience to retain the messaging.

VIDEO

Video continues to be the preferred format by members who are "visual learners". They found the video "easier to follow" and "attention grabbing" due to use of "dynamic graphics". That said, given the technical nature of the subject, some asked for more visuals and examples to help those who have low financial literacy. Other suggestions included using a more visually appealing colour scheme and addressing the somewhat monotonous voice.

The videos—without a doubt. Videos are more visually attractive, and that makes them much easier to understand for the layman.

I just wish it was 'more' visual, the black and white is so drab and it makes me not want to watch.

TEXT

Some agreed that the text format provided them with an in-depth understanding of the subject. However, they called for the inclusion of graphs or examples to help the audience to better engage with the text.

I do feel that the text is great supplemental knowledge and can help to build or provide additional scenarios in text for the reader to enhance to build upon the overall knowledge presented within the videos.

It is nice how it explains certain aspects right away and can quickly be reread for clarity if needed.

Comprehension of the Average Inflation Target Framework

The nuance that the Framework deviates from the current approach in that it may result in rates kept lower / higher for a longer period of time did not come through as strongly. The benefit of this approach – allowing the economy to recover – was more obvious to members.

For the most part members displayed a good grasp of the notion that rates may be adjusted in order to reach the target of keeping inflation at 2% and that the target is an average across multiple years.

On the lower end of the knowledge spectrum, members were simply left with the impression that the Bank takes an active role in managing inflation to maintain a "healthy economy" and help consumers plan.

Main Message: The Bank of Canada takes an active roll in maintaining a set rate of inflation. Take many things under consideration.

Key Messages:
•Bank of Canada has set an inflation rate to 2% over set period of time.
•The rate is achieved by lowering or raising interest rates as required
•periods where the rate is higher or lower that 2% will need to be made up to ensure the inflation rate stays at it's 2% on average.

The main message is that instead of targeting an inflation of 2%, the target would be a 2% average over a period of ten years. That would mean that the interest rate would have to be kept higher or lower for a longer period of time than it would be currently in order to obtain an average of 2%. That would allow the economy and jobs to recover for a longer period of time after a recession.

I think the Bank of Canada is trying to explain how crucial a stable economy is to our survival and how they can keep our economy healthy by adjusting to a 2% inflation framework.

Ideas or concepts that require additional explanation

Given the current pandemic situation and low interest rates, some expressed concerns related to **deflation** and wanted more information about the subject.

For those who have low levels of financial literacy, they struggled with understanding how average inflation affects them personally. Many preferred relatable examples in the "inflation over time" video (e.g. the "basket"). This is consistent with previous findings from engagement 1 as members preferred **relatable everyday examples** when learning new technical concepts. We recommend testing more examples (if available) in the final week 4 engagement with members.

How **credible** is the average inflation targeting framework? How does the Bank monitor the 2% targeted inflation rate? Why does the Bank want to extend the current inflation targeting period? How will the targeted inflation rate affect the "average Canadian" in their daily life?

Members who are less financial literate struggled with terms such as **"velocity"** and **"policy rate"**.

In their own words…

I would like more information on *deflation,* especially as it would be very relatable to the current situation that is happening now due to the pandemic. I found that the paragraph just briefly skimmed over it and focused mainly on rates/low/high inflation.

totally liked the basket idea , and easy common example people can relate to.

I think that the inflation framework could be broken down into everyday more simple concepts and terms for people that are new to economics.

They are fairly easy to understand. The main question is how believable they are. For example, how believable is the "actual" inflation rate in relation to your trips to the grocery store?

I very much appreciate having the examples and visuals to learn this information rather than having to read the dry plain text and have to come up with my own, possibly incorrect, interpretation of the concepts being presented.

Just more on the "how" (some technical analysis using macroeconomic concepts such as a graph of the money market would be a good enrichment).

Policy rate could use a brief explanation.

The only term that needs to be defined is "policy rate" so the reader doesn't have to look it up online.

None that I can think of at this time - although some may need to acquire a greater understanding of the term "velocity".

A mixed assessment of the Average Inflation Targeting Framework

While some believe that average inflation targeting offers more time to help the economy and the job market to recover in a struggling economy, others suggested that inflation target can be reached faster, and the inflation rates are more stable and predictable under the inflation targeting framework.

Benefits

- the ability to **control and maintain** a stable inflation rate
- Contributes to **economic stability**
- **Encourages growth and employment** in an economic downturn
- the ability to **build personal financial plan** knowing the projected inflation rate

I think average inflation targeting is more appealing to a longer fiscal approach because it's based on a 5 to 10 target rather than just a year or two. The draw backs are that the low interest rates seem to punish savers and people who tried to have little debt."

The main benefits are trying to keep a stable economy so that it's more easily able to predict purchasing power and future forecasting."

Drawbacks

- **Lack of transparency** (as in the first engagement, members questioned how the Bank determines the average inflation target)
- **Fluctuations in inflation rates and interest rates** (Although the average inflation rate is set at 2%, there is still a possibility for swings in inflation)
- The possibility of **receiving a lower return on savings accounts** when the economy is not performing well

When working with averages I feel that we may not fully address the issues at hand but instead applying a bandaid that may not work out as well in the long term. In previous videos, it was shown that the scale must always balance in the end so there could be more drastic changes to make corrections after the averages are no longer needed."

Average inflation targeting works over a longer period of time, whereas inflation targeting seems to be a faster approach. But they both provide the solutions needed to keep the economy stable."

Average Inflation Targeting - Impact on members' personal financial situation

PERSONAL SAVINGS

For depositors (especially seniors) who like to keep their money in savings accounts, there were some references to the negative impact of low inflation/interest rate has on their savings (e.g. savings in High interest bank accounts, GIC, etc.).

"As a mortgage owner, inflation would be in my benefit when it is at a lower interest rate to lock into. However, for someone who has plenty of savings this would affect them quite a bit more by causing less saving interest to rise."

DEBTS AND LOANS

Those who have mortgages or loans characterized low interest rate positively because it allows them to find opportunities to lower their monthly debts payments. These members were more likely to borrow and spend when interest rates stay low.

"The lower the interest rate, the more affordable loans become and buying power increases, which allows you to buy more extra goods/services."

COST OF LIVING

Many believed that the cost of living seems to be rising faster than the targeted 2% inflation rate. Rent and food prices were brought up as examples of this.

"I see an increase higher than 2 percent from one year to the next for some products, especially groceries!"

INVESTMENT

For members who identified as being conservative investors, average inflation targeting does not have a serious impact on their personal financial situation. When inflation is low under the framework, others are considering high-risk investments (e.g. cryptocurrencies) when interest rates are low.

"It would effect my investing strategy and make me consider alternatives to equities, such as bullion or Crypto Currencies."

Results are based on responses from Let's Talk Inflation online community.

Approximately 210 community members shared their thoughts on the topics between Jan 14th and Jan 16th, 2021.

The findings presented in this report are qualitative in nature meaning that their value is in understanding the factors, and interplay between factors, behind attitudes and reactions to messaging. They are not intended to be representative of the wider population.

Profile of Community Members

Women	62%
Men	37%
Gender diverse	1%
34 and under	29%
35-49	28%
50+	43%
Alberta	14%
Ontario	32%
BC	18%
Quebec	20%
Rest of Canada	17%
English	81%
French	19%

LET'S TALK INFLATION COMMUNITY ENGAGEMENT 3: DUAL MANDATE

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Top-of-mind Reactions to Dual Mandate Text

Members were asked to highlight what stood out to them either as a positive or negative in the Dual Mandate text shown to the side. Members were more likely to react positively than negatively.

Flexibility is highly appreciated given the uncertainty of the current pandemic. Additionally, the references of "a consistently healthy job market" and "low and stable inflation" resonated well.

Negative highlighting seemed to stem from **skepticism** of "**full employment**". Outstanding questions from the members include: how does the Bank define "full employment"? how can we achieve that? There were also suggestions to replace "full employment" with "a more positive employment figure" or "aim for unemployment to equal the natural rate of unemployment". There were also a few mentions about **implications of low inflation on seniors and families** that rely on government pensions, savings or fixed incomes.

Dual Mandate

Good for job seekers and those who are in unstable job situations

What it means: A dual mandate means that, along with targeting inflation, the Bank would also **aim for full employment**, which generally means that **everybody who wants a job can find one**. With a dual mandate, the Bank would give equal weight to inflation and employment, so we would occasionally accept **higher inflation** by keeping the interest rate lower to encourage more hiring.

The need for the Bank to be flexible when dealing with uncertainty during the pandemic

Why the Bank would pursue this framework: Meeting the current 2 percent inflation target often achieves **full employment** anyway—but not always. A dual mandate would allow the Bank to be **more flexible** about inflation at those times when it might help make the job market healthier.

Skepticism of "full employment" – no guarantee that with targeting inflation, we will achieve full employment

A dual mandate with low and stable inflation and a healthy job market sounds encouraging for many

How it would affect you: A dual mandate would mean we not only aim for low and stable inflation, which allows you to plan with confidence, but also for **a consistently healthy job market** where prospects are steadier for the entire labour force. This means the Bank might keep interest rates lower to encourage more hiring so more people can enter the workforce, even if it means **higher inflation**.

Negative impacts on return on savings and customer spending

In their own words…

I find the statement to be positive overall. All aspects of balancing a low and steady inflation rate while still aiming for full employment can meet the needs of everyone. Allowing the bank to have this flexibility seems the best option for the long term.

Striving for 2 positive mandates of low inflation and a healthy job market sounds very encouraging. It gives me confidence in the stability of our economy. It shows there are checks and balances in place to avoid unexpected skyrocketing consumer prices while trying to keep unemployment low as well. It's the best of both worlds despite being a fine balancing act.

I just don't believe in full employment as I have never seen it happen. I believe we can be at a point where it would be easy to find work. As a pensioner, the 2 percent target is great as you can always plan with your income. Aiming for low and stable inflation is good for the corporations and the workers.

I am all for flexibility in times when it is called for, if it will help the economy run more smoothly. The green highlighting about aiming for a healthy job market also sounds good in theory. If conditions in the world were normal I think these strategies would work well. There are not normal times though so I'm unsure if their implementation would achieve the desired result.

Aim for full employment- What exactly does aim for full employment mean? Everybody who wants a job can find one- That is not always the case. Maybe in certain industries, and more junior positions. Looking for a job is challenging, especially the higher up you are in your career, and it doesn't matter if the economy is still good/bad.

A dual mandate is a great idea for people in the workforce, but it's not so good for those with low incomes. They may have to choose between food and other expenses as prices might go up.

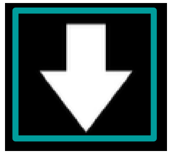
A dual mandate with low stable inflation allows me to plan with confidence. It sounds great for me and others. Also when we have a healthy job market, it's more opportunities to find a job, because the bank keep interest rates lower what encourage more hiring.

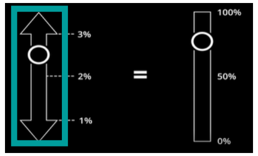
"Bank to be more flexible" ensures there is flexibility in the controlling factors to stabilize the economy and workforce positively.

Feedback on preferences video vs. text was very similar to week two sounding

Here are some suggestions specific to the Dual Mandate materials:

WHAT RESONATES / WHY?



- **Video:** **Slider bars**, up and down **arrows, inflation target in bold** and most **icons** were well received by many members.
- **Video:** **Subtitles** – provide better accessibility for hearing-impaired users.
- **Video:** **Mixed views on the style of the video** – While some preferred more colors for the video to make it more visually appealing, others did not expect the Bank to put out "flashy" videos about economic concepts. They expected **clarity** in messaging first and foremost.

"I like that it is simple and straightforward without a lot of pizzazz that can take away from the messaging."

"The 2% and appearing icons really caught my eye. By having only the relevant thing on the screen it helped make it clearer, though they did go by a little fast!"

"The sliding dials are effective in helping to illustrate the concept."

WHAT DOESN'T / WHY?

- **Text:** **Lack of visuals/graphs** in the text document

"I prefer the video because you can visually see the images and icons which makes it easier to grasp the concept."

Comprehension of the Dual Mandate Framework

The key message for most was that the Dual Mandate Framework offers the Bank flexibility to achieve a balance between stable inflation rate/interest rate and a healthy job market.

However, there were some unanswered questions from the video and the text:

- **Full employment**: most described "full employment" as "idealistic", "magical" and "impossible". Some expected the Bank to provide more details about full employment.
- **Canadians living in low-income households/having fixed incomes** vs. **high inflation**
- **Low inflation** and the **job market**: How does low inflation affect the job market?
- **Dual mandate in theory vs. implementation**: More specifically, some members want to know how does the pandemic affect the implementation of this framework?

The main message is to try to contain inflation and create full employment.

The main message in both the video and the document that they are trying to communicate is that with a dual mandate it would allow for equal weight given to inflation and employment. It would allow the bank to be more flexible about inflation and it would help allow for a healthy job market.

The objective is to achieve 2% and full employment; allowing the bank enough flexibility to get the job done.

Full (or higher) employment is a sort of magical dream, isn't it, promised in every election platform. It's obvious that unemployed people don't spend as much nor contribute in other ways. A great goal, but impossible!

I feel the same way- how can they say this will work? I just don't understand.

Nothing is ever guaranteed as it's just a model concept, but you can imagine some of the possibilities.

I can see how this would generate jobs, but I can also see how people with low incomes would not fare so well with the higher inflation.

Yes, how they will implement and continue to manipulate interest rates. Will we see negative interest rates?

theory is great but yet how will it be implemented.

Considered assessment of the Dual Mandate

Benefits

- The **inherent benefits of full employment** – consumer spending, wellbeing of population, government savings on EI payments
- Affords **more flexibility** for the Bank
- Feels more **"socially progressive" and holistic view** than solely focusing on inflation
- Much needed **help for areas with challenging job markets** e.g., Alberta

The obvious benefit is clearly higher employment. This benefits everybody, as it usually means higher consumer spending. I simply cannot think of any drawbacks or downsides, as it means the Bank is being more flexible in its approach."

I believe that it would benefit my situation, in that I live in a region suffering from significant unemployment and has been for some time. Having more incentive for employers to hire by way of lower interest rates would help the employment situation in Alberta."

Drawbacks

- Viewed as an **"unproven concept"**, compounded by difficulty in understanding how it would work, fear it may simply lead to minimum wage jobs and belief that current approach is tried and tested
- Implications of **high inflation** on wages and living costs
- Unclear how the Bank will **control other factors** that affect job market e.g., mismatch between skills/ability to job vacancies, current pandemic being a case in point, policies of other countries

I do not understand how the dual mandate could be sustainable long term or how it would help with employment, especially with the current circumstances. I think the targeting inflation has worked, is working and why fix something that is not broken?"

I don't believe this is as simple a linear correlation as the video describes. And giving the population this sense might lead to expectations that might be able to be realized for those seeking employment--if we consider the current climate: interest rates are low but we still have a higher unemployment than a year ago."

I'm not sure how high the inflation rate could go that would be deemed acceptable, so that is a possible drawback. Also, when thinking of "everyone who wants a job could have one" this could be an issue as the quality of jobs suited to each person's needs would be a factor, as not everyone may want to work or can work, as an example, as a labourer."

The perceived personal impact of the Dual Mandate

"Won't affect me personally" This was a dominant sentiment among community members who felt secure either in their financial or employment positions – e.g., retired members with pensions indexed to CPI and those employed in industries they perceived as "essential" or "stable". Of note, those who viewed their financial situations as "simple" or are careful with their expenses due to limited income also shared this view.

"Will affect my purchasing power" Though there was appreciation of the benefits of low rates for lenders, the effects of high inflation from the Dual Mandate appeared to be more top-of-mind. Once again, concerns were raised for those with limited disposable incomes (retirees, those with a disability) and those unemployed that the policy is intended to help.

"Sounds great IF it works" Yet again, there was a healthy amount of skepticism on whether Dual Mandate will work. Beyond the issues outlined already in previous slides, the pandemic appears to have underlying dual effect of a) creating aversion to drastic changes and b) heightening the sense of uncertainty with a change in direction. Disillusionment with the job market over the years also played into the skepticism. The research clearly shows that proof points are needed to widen support for the Dual Mandate.

> *Interest rates were decimated last year. My savings accounts no longer make any interest. Going by the explanation in the video and text, I am to spend my money until the interest rate is raised, whenever that happens. Currently I am unemployed and living on these said savings so I am inclined NOT to spend if I can help it. Will the Bank of Canada ensure me that I will get a job just because they say they have a nearly fool proof plan to manage not only inflation but employment? My trust in government doesn't go that far.*

Results are based on responses from Let's Talk Inflation online community.

Approximately 197 community members shared their thoughts on the topics between Jan 20th and Jan 22nd, 2021.

The findings presented in this report are qualitative in nature meaning that their value is in understanding the factors, and interplay between factors, behind attitudes and reactions to messaging. They are not intended to be representative of the wider population.

Profile of Community Members

Women	60%
Men	39%
Gender diverse	1%
34 and under	25%
35-49	29%
50+	46%
Alberta	15%
Ontario	32%
BC	17%
Quebec	21%
Rest of Canada	14%
English	80%
French	20%

LET'S TALK INFLATION COMMUNITY ENGAGEMENT 4: OVERALL IMPRESSIONS

BANK OF CANADA
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Average Inflation Targeting was easier for members to grasp as it is more closely aligned to the current approach than the Dual Mandate.

- This was in part facilitated by the clarity provided by the 'Inflation over Time' video – many members continued to refer to this as the easiest to understand piece of information they were provided over the fieldwork period.
- The "straightforwardness" of focusing on inflation alone was another factor.
- There was a greater sense of trust that Average Inflation Targeting would maintain stable prices because it has worked in the past.
- Additional information needs centered around addressing concerns on the effects on affordability of day-to-day items during the 'make up' periods.

> **Most people understand the basic of inflation, that all prices rise together because one cost influences a dozen other costs of production. The Average Inflation is just one more step added to ease the transition, and according to the explanations, especially after a recession. It would be easier to explain to people the basics of Average Inflation and […] prepare them for guaranteed higher rates in years to come.**

> **I think the one that made the most sense to me is the average inflation targeting model. I think averaging out inflation rates makes sense, […] One can look at the lower rates and realize that might translate into a spike later on. That is the easiest for me to describe.**

Members struggled to understand *how* and *whether* Dual Mandate would work.

- This was especially evident when members were asked about additional information needs. They repeated calls to address:
  - **How do lower rates encourage hiring?**
  - **What types of jobs will it create?**
  - **What about the non fiscal components related to employment (new technologies, foreign trade, training, demand, etc.)?**
  - **What is the evidence for this?**
- In some cases, the benefits of full employment felt less tangible on a personal level. Others meanwhile felt that focusing on employment in addition to inflation was pertinent in the current climate. Dual Mandate was therefore somewhat polarizing.

> **The most difficult framework to explain is the dual mandate because it was never explained how it will create jobs. Yes, I get that the inflation rate is targeted with employment in mind, but how does that create a job? Because they can take on extra debt? It seems counterproductive to take on debt to create profit.**

> **[...] The dual mandate is much more complicated, because the Bank has to balance targeting 2 percent inflation while being flexible enough to reach full employment.**

> **Understanding the Dual mandate was the hardest for me. I still have trouble warming it in my mind. I think I understand the basics but I don't know how it affects me as a individual. It seems to be more country oriented and I'm not sure that it really would help me to understand it in depth.**

Members called for more contextual information around any shifts from the current approach:

- What is the impetus for the change?
- Why is the change being considered now?
- When will the change happen?
- What are the reasons behind choosing one Framework over the other?

"It doesn't make any sense to me and we should just be sticking with the inflation targeting because it is working and HAS worked for 30 years now, why do we need to change something that it working?

Community discussions suggest that showcasing a variety of real-life examples will be key in increasing the relatability of the Frameworks.

DEVELOP PERSONAS

- Consider different life stages and household compositions
- Think beyond 'average' incomes, investments and savings as these are not the reality for those on benefits and low incomes

EVERYDAY PRODUCTS

- Show impact on cost of living using groceries and household bills as examples

BIG TICKET ITEMS

- In addition to mortgages, consider examples such as large household appliances

SCENARIOS

- Members value tools (e.g. calculator) that help them understand how changes will affect their personal circumstances

Most members had a more positive impression of the Bank as a result of the materials they viewed in this study.

Negatives:

- Lack of explanation on why the Bank decides to change the current framework now

Stays the same:

- For some who are financially literate and who have a basic understanding of the Bank's mandate before participating in this community, their perception of the Bank stayed the same

Positives:

- Gained a better understanding of how the Bank manages the inflation – as a result, many have more confidence in the Bank's ability to control inflation and are less concerned about "skyrocketing inflation"
- Appreciate the effort the Bank has made to create easy to understand materials to help Canadians to understand these frameworks – some wish that this was made available more widely for others to help with financial literacy
- Increased trust in the Bank in terms of keeping cost of living affordable for Canadians – for some, it is "refreshing" to see that the Bank has the interest
- Some appreciate that the Bank values feedback from Canadians; however, they wondered why the Bank consult with the general public instead of experts within the Bank

Others: There is a desire to learn more about different inflation frameworks. It appears based on the feedback collected that most expect the Bank to educate the general public about finance/economy. Some suggested the Bank to offer free online courses for the general public.

In their own words…

My overall impression of the bank has changed for the good after participating in this study. My overall understanding of projected targets and analyzing inflation has dramatically improved over this study. I am less concerned about skyrocketing Inflation and more solidified that a 2% average inflation is achievable without much manipulation to the system. This study makes the future horizon seem less bleak for now have a clear understanding of the Banks intention with inflation.

The Bank had always felt like a pie-in-the-sky sort of institution, but this exercise educates me more on their goings-on apart from just setting rates from year to year. The decisions they will make in the future will come across as less impersonal now that I know why the rates go up or down.

I had a general knowledge of inflation and banks but this definitely broadened it and feel confident in the banks ability to keep inflation steady at 2% as they've shown they have a good handle on it over the past years.

I now have a better understanding of the Bank’s role and I think that the information provided was valuable and very helpful to better understand what inflation really means.

It does make me wonder why they are asking the public at all. Is it because of public perception? Do they want the public on board before they make any changes? I assume they have expert financial and economical wizards to consult so they are not asking questions to get advice on financial policies.

My perception of the Bank has not changed dramatically, but it has helped me to understand , and certainly increases my confidence in the Bank, to know they have a robust structure in place. The fact that they seem willing to fine-tune and change it if the circumstances require it, is another measure of the checks and balances in place, and that they works as they are designed to.

Results are based on responses from Let’s Talk Inflation online community.

Approximately 153 community members shared their thoughts on the topics between Feb 4th and Feb 6th, 2021.

The findings presented in this report are qualitative in nature meaning that their value is in understanding the factors, and interplay between factors, behind attitudes and reactions to messaging. They are not intended to be representative of the wider population.

Profile of Community Members

Women	61%
Men	38%
Gender diverse	1%
34 and under	27%
35-49	31%
50+	42%
Alberta	16%
Ontario	29%
BC	16%
Quebec	24%
Rest of Canada	16%
English	80%
French	20%

