

# INFLATION TARGET RENEWAL FOCUS GROUPS

Bank of Canada

Fall 2019

REPORT

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# Background and Methodology



## OBJECTIVES

Qualitative research was intended to :

- Gain a better understanding of how different socio-economic groups experience inflation (namely Canadians residents living in large, medium and smaller sized communities as well as those residing in rural areas), general awareness, knowledge, perceptions of the current inflation-targeting framework.
- Furthermore, qualitative research is also intended to help the Bank to better understand how changes to monetary policy framework affect different segments of the Canadian population.

# Background and Methodology



## METHODOLOGY

Ipsos conducted 6 in-person focus groups in three cities (Toronto, Montreal and Vancouver) from November 26<sup>th</sup> – November 28<sup>th</sup> as well as 2 online Ipsos Ideation sessions on December 4<sup>th</sup> and December 5<sup>th</sup>. Group composition was as follows:

- 2 groups with the general public in Toronto
- 2 groups with the general public in Montreal, in French
- 2 groups with the general public in Vancouver
- 2 online groups:
  - 1 online group with residents living in medium and small population centers
  - 1 online group with rural residents

**Important note:** Research findings highlighted herein are qualitative in nature. Consequently, findings cannot and should not be extrapolated to the broader Canadian population, rather, they should be considered directional in nature.



# Key Findings



# Key Findings



## LEVEL OF KNOWLEDGE AND UNDERSTANDING

- ✓ **Most participants acknowledge taking time to seek out information, in some shape or form, on what's happening with regards to the Canadian economy.**
- ✓ **Participants rely on indicators in their day to day lives to determine if the economy is performing well or not - indicators such as: the price of consumer goods and services, housing costs, jobs and borrowing rates to name a few.**

Typical sources for economic information include:

- Major news channels
- Journal, magazine and newspaper
- Family and friends, financial advisors (trusted third parties)
- Trusted websites
- Social media

# Key Findings



## LEVEL OF KNOWLEDGE AND UNDERSTANDING

- ✓ **Awareness/familiarity of inflation targets and inflation control mechanisms tends to be low in most sessions.**
  - Although 'Inflation' wasn't mentioned by name unprompted as a concern, a deeper dive suggests that inflation related concerns are prevalent for many in attendance.
  - Most participants **equate inflation with cost of living** – increased prices for consumer goods, food, services and housing costs.

# Key Findings - continued



## INFLATION CONTROL MECHANISMS

Most participants recognize that **inflation control measures** are **necessary** in order to **ensure economic stability** as well as the **ability to predict and make medium and longer term economic plans**.

- Overall, participants are able to grasp the likely impacts in their day to day life of high and low inflation i.e. low interest rates translates into greater borrowing and **consumption** and eventually into **increased or unpredictable prices/inflation**. Conversely, **higher interest rates lead to lower borrowing, less consumerism and eventually lower inflation**.
- Apparent **economic polarization** and the **perceived growing disparities between haves and have nots** was frequently mentioned by participants in all groups.
- Interestingly many participants (some unprompted) recognized the important role **inflation control mechanisms** can play in terms of minimizing greater economic polarization/disparities within the population hence **ensuring greater social cohesion**.



# Key Findings - continued



## INFLATION TARGETS vs. REALITY... A PERCEIVED DISCONNECT

Most agreed that the economy working best when inflation is low and predictable is a reasonable assertion in principle. However, for many, there appears to be a **disconnect between the 2% target and what they are experiencing in their day-to-day lives.**

Ensuing conversation tends to center on:

1. **Cost of living:** A strong focus on the **disconnect which exists between inflation numbers (2%) as reported in the Consumer Price Index** and what participants actual cost of living –most feel it is much higher.
2. **Wages:** There is a strong sense among participants that **wages are simply not keeping pace with 2% inflation.**

# Key Findings - continued



## REAL ESTATE AND HOUSING COSTS vs. 2% inflation rate

This heightened skepticism is further fueled by **real estate market volatility** and **housing costs** more generally – this is particularly true for those living in **Toronto** and **Vancouver**.

- According to participants exponential increases in real estate and **housing prices far outpace 2% inflation** and wage increases making home ownership much less likely – and consequently **negatively impacting social cohesion**.

## INFLATION IN RELATION TO EMPLOYMENT AND INTEREST RATES

When asked to consider the pros and cons of inflation targeting in the context of **employment** and **interest rates** it appears that the **relation between inflation and interest rates was far more intuitive** for most than was that between inflation and employment rates.

# Key Findings - continued



## INFLATION TARGETS

There is wide spread agreement in all sessions that **inflation targeting is not only helpful but also necessary in order to ensure a stable and predictable economy.**

Moreover most agreed that the **Bank of Canada was on the right track when it comes to its approach to controlling inflation.**

Some other areas of interest worthy of the Bank's attention included:

- Interest rates – Mortgage payment; personal savings;
- Employment and wages – Unemployment rates; minimum wages;
- Growth rates – Economic growth; GDP; total spending;
- Overall affordability - Home ownership; cost of living;
- Debt - National deficit/debt levels; personal levels of indebtedness.

# LEVEL OF KNOWLEDGE AND UNDERSTANDING



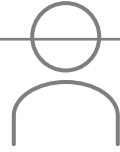
# Biggest sources of concern when thinking of....

The economy?



- Cost of living
- Wages
- Job security
- Wealth inequality/polarization/diminishing middle class

Your personal financial wellbeing?



- Bills and mortgage payment
- Personal savings and debt
- Financial wellness and quality of life

Interest rates?



- Loans
- Mortgage payment

The cost of living?



- Housing costs
- Transportation (particularly amongst participants living in small centers and rural areas)
- Food

Inflation?



- High inflation – cost of goods and services rises
- Inflation's effects on the middle class and the working class





# What specifically are your concerns?

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**"Not making enough to live.**

*Saving and saving for retirement at the same time isn't doable"*

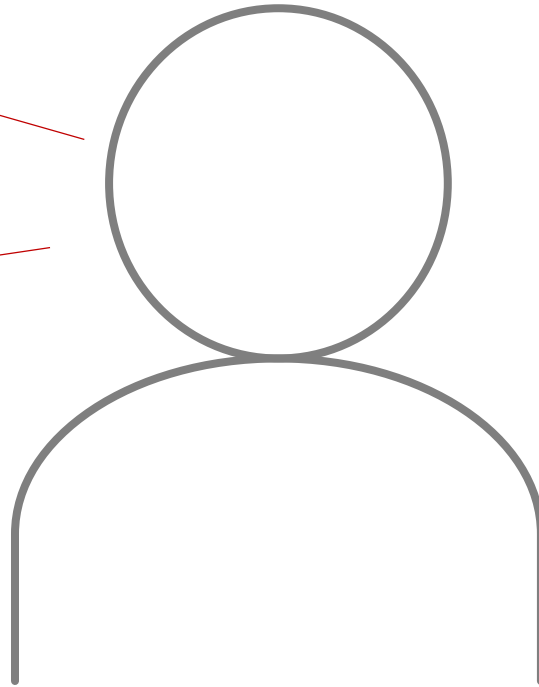
*"For me I'm concerned about never being able to have a car or house in the future - **major purchases.**"*

*"**Job security** and being a single parent – if something was to happen to me, even though I have insurances, I would not be able to meet my financial needs."*

**"The cost of living is increasing** and it's challenging to keep on top of."

*"Mostly concerned about the economic effects on the poor and the working poor.  
**Minimum wage** must be a higher, living wage."*

*"Major **disconnect between the cost of living and the minimum wage** in Canada. It never feels you'll meet it."*



# The Canadian Economy

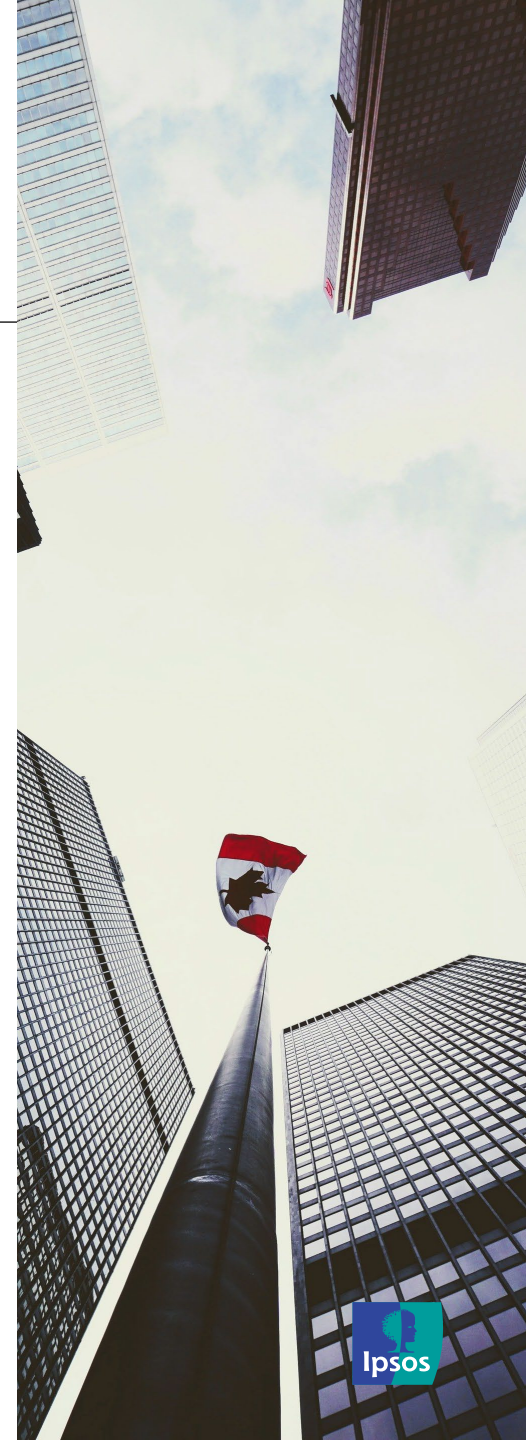
- Generally speaking **most participants take time to seek out information** on what's happening with regards to the Canadian economy.
- Those who do not seek out information actively tend to rely on information from **family, friends** and **other trusted sources** (financial advisors, accountants, government announcements)

What economic issues are you paying attention to in the news?

- Economic growth
- Interest rates
- International trade
- Housing affordability
- Job creation
- Stock market
- Oil and gas

What sources of information do you see as most credible when it comes to this stuff?

- Major news channels (CBC, BBC, CNN, etc.)
- Local news networks
- Journal, magazine and newspaper (The Economist, Les Affaires)
- Family and friends and trusted third parties
- Trusted websites (MSM, Reuters)
- Social media (Facebook, Reddit, LinkedIn, etc.)
- Radio



# When hearing the word “inflation” what kinds of things specifically come to mind?

- **RISING COST OF LIVING**

*“Rising pressure on us to provide more services for people that are left behind by wages that are not keeping up with living cost.”*

*“The cost of every day necessities going up while my wages stay stagnant.”*

- **RETIREMENT SAVINGS**

*“Inflation is a major concern to me. I am retired and worry about outliving my savings as everything gets more expensive.”*

- **OIL AND GAS**

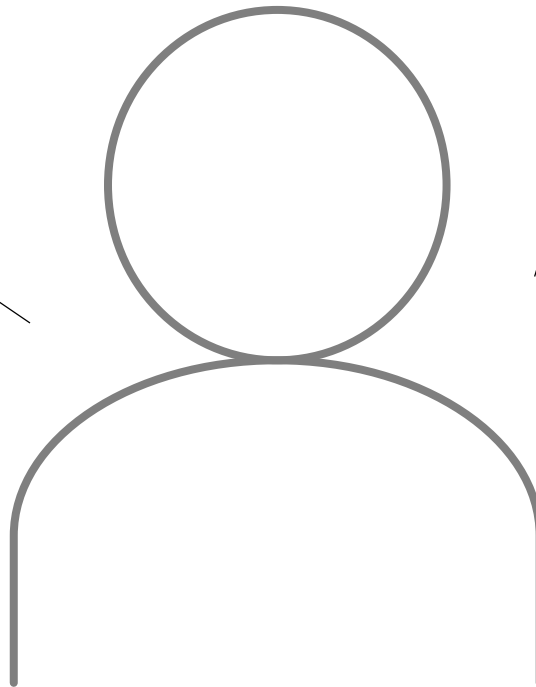
*“Gradual increase of the cost of living - not a huge concern but I do get annoyed with inflation with respect to gas prices.”*

*“The cost of gas, food, power, bills going up each year.”*

- **WAGES**

*“Hamster on a hamster wheel. Wages are not keeping pace, so we're slowly sidelined in purchasing power.”*

*“The cost of every day necessities going up while my wages stay stagnant.”*



# Canada's Inflation Target



## FAMILIAR – WHAT IS IT?

- A 1% to 3% target on inflation
- A target that helps to keep the price of goods and services **under control**
- A target that **maintains the inflation rate at a manageable level**

### Why do we need it?

- **Price stability**
- To keep inflation **stable** and **predictable**
- Cost certainty for **budgeting**



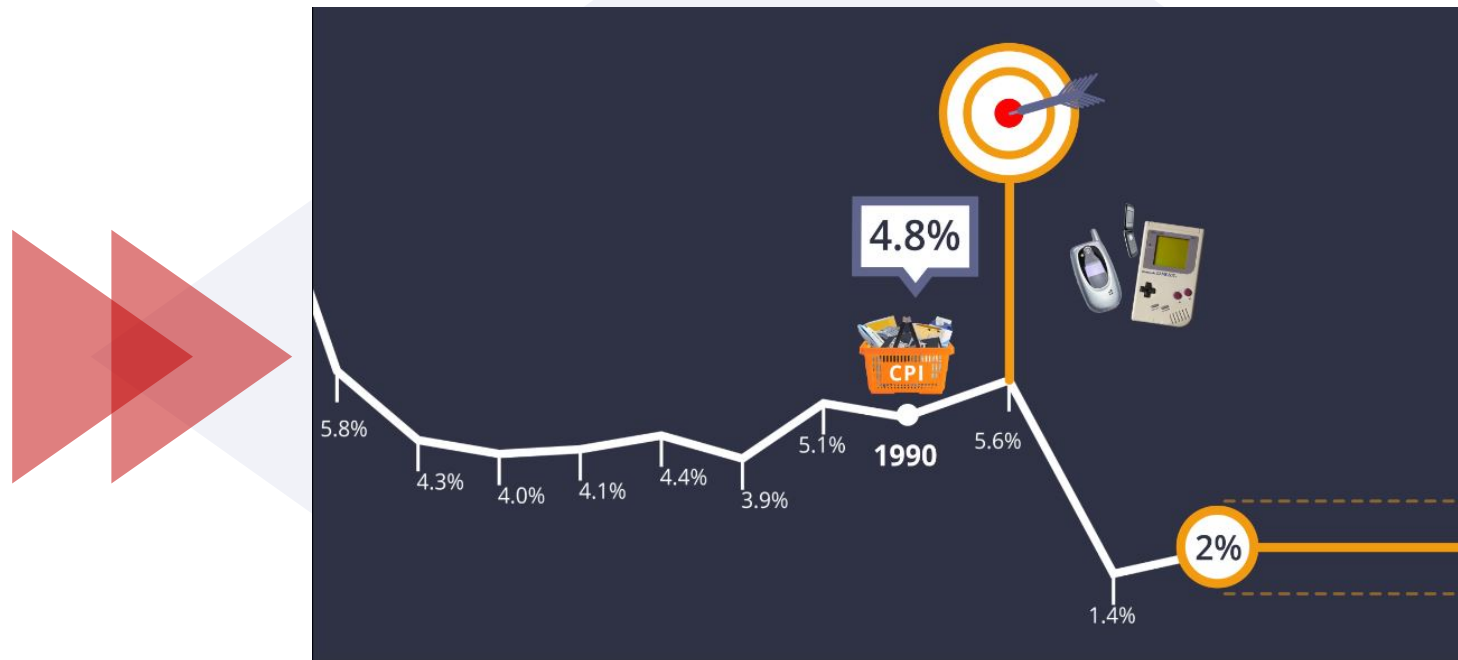
## UNFAMILIAR – WHAT DO YOU THINK IT IS?

- General **lack of familiarity** with inflation target, its purpose and how inflation target are relevant to day-to-day finances
- Assumption that it is a target designed to **prevent economic stagflation**

### What do you think its purpose is?

- To **stabilize** the Canadian economy
- To ensure steady **economic growth**
- A tool to **incentivize** consumer behavior

# Media clip: Inflation over time





# Do you feel you now have a better understanding of inflation targeting than you did before we showed you the video?



YES

"Makes sense. If the targets are so high, we won't be able to afford a lot of things. It would be like going back in time."

« Oui, j'ai mieux compris. »

"Yeah, some of the banks are trying to keep it at a certain level for a certain amount of years."

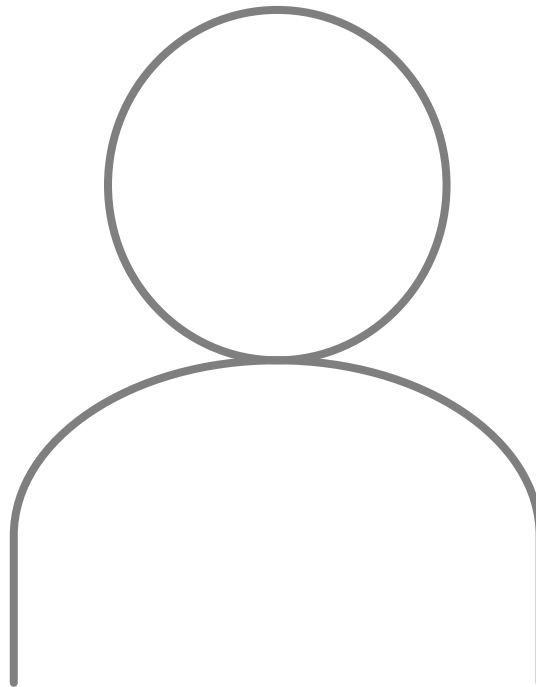


NO

"I don't understand how it can control the market. You can make the target 1% or 3% but, if tomorrow we don't have supply, the price is going up. You can do nothing."

"I don't see how you can control inflation. If the Bank of Canada sets this target, how do they implement it?."

« Moi je suis surprise que ça soit juste 2%. »



# Managing inflation

How does ensuring inflation is under control make your life better?

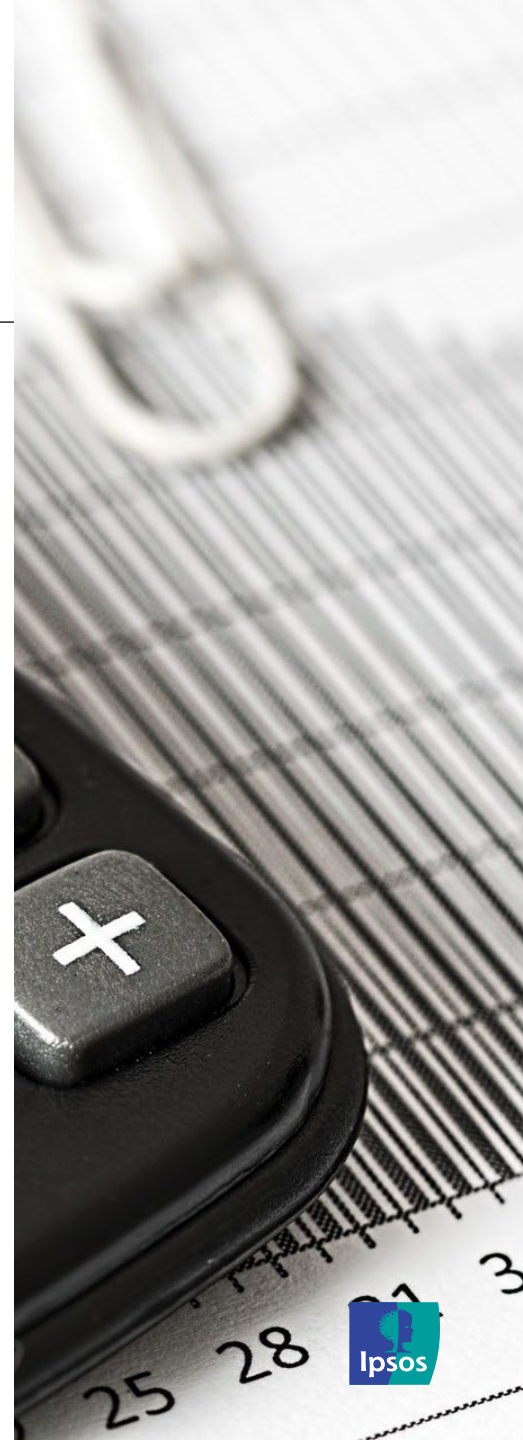
- Easier to make **budget plans** for the future
- Inflation target can keep the **cost of goods low**
- Anchors expectations – **price stability**
- **Consumer confidence** – feeling confident about the overall state of the economy and their financial situation

What is the purpose of setting inflation targets?

- To keep the Canadian economy **stable and predictable**
- To **avoid deflation** or conversely **high inflation**
- To ensure that **prices increase gradually**
- To ensure a **stable employment market**
- To provide a **good overall quality of life**

Who/what does it benefit and how?

- **Canadians** – Inflation target helps to ensure that Canadians can maintain their lifestyle
- **Investors** – inflation target reduces investor uncertainty and allows them to predict changes in inflation and interest rates and consequently make strategic investments in Canada's economy
- **Consumers** – Consumers feel more secure in purchasing goods and services



# Managing inflation - continued

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What does it mean for our economy when **inflation is high**?

- **High interest rates**
- **Lower currency value**
- Gradual **decrease in average Canadians' ability to actively participate/reinvest in the economy**
- Will eventually **lead to lower consumer confidence**
- **Eventual economic slowdown**

What are the likely impacts on your day-to-day life?

- Will lead to higher personal/household **debt** load
- **Less disposable income** to spend as cost of living increases
- Less freedom with household/personal budget

What does it mean for our economy when **inflation is too low**?

- **Overall economic slowdown**
- **Less job creation and lower employment levels**
- **Weak local economies**

What are the likely impacts on your day-to-day life?

- **Biggest impact is on consumption** – people are more cautious in terms of spending habits.

# Do you view inflation as measured and reported by StatsCan as accurate (i.e. 2%)?



YES

- « Comparé au 10%, ça semble raisonnable. »
- “I view it as accurate, because I don't have any information to state otherwise.”
- “I think 2 seems reasonable. Not sure as to why it's set at 2.”



NO

- “It doesn't seem to be accurate; it seems costs - especially food - have risen more. No idea why it is set at 2%.”
- “In the basket there were the things that you need daily, but they didn't mention rental prices or house prices. Those have gone out of control completely.”

## Do you know why is it set at 2%?

- Many participants **did not know why the inflation target is set at 2%** and were **confused** by this concept.
- **A manageable percentage** – not to gravely impact the consumer
- StatsCan compiled data and they have determined the **optimum rate**
- **“Sweet spot”** – people can afford the cost of living
- Consumer boost
- “They probably have lots of data, so they can probably compare how things were between one set of years and a different set of years.”
- « J'imagine que c'est un calcul avec les banques. »

# Other possible measures of economic performance

## UNEMPLOYMENT RATE



- Low unemployment rate

## GROWTH RATE



- Economic growth rate

## BOND MARKET



- Bond market Highperformance

## GDP



- GDP growth

## MEDIAN HOUSEHOLD WAGES



- Household income growth

## PRICE OF GOODS AND SERVICES



- Increase/decrease in prices of goods and services

## HOUSING PRICES



- Increase/decrease in housing prices

## LARGE PURCHASES



- Increase/decrease in large purchases



# Likely outcomes of HAVING/NOT HAVING INFLATION control mechanisms in place such as inflation targets

## HAVING inflation control mechanisms

- **Stable economic growth**
- Easier to make **budget plans** and plan for the future – some describe inflation control mechanisms as the “**guardrails**”
- **Wage stability/predictability (steady and predictable increases) – good for employers**
- **Promote social cohesion and social justice – allows all to actively participate in the economy**
- More **investments** from both foreign and Canadian investors



Ça vient toucher à un aspect de justice aussi. Pour les gens très fortunés, si ça augmente, il n'y a pas de problème. Mais pour les gens qui gagnent moins, ça a un très grand impact. Justice sociale. »

People are able to budget better, able to make a plan for the future with some basic idea of how it will go financially.”

## NOT HAVING inflation control mechanisms

- Consumer price **instability**
- Broaden the **gap between the rich and the poor**
- High **Inflation/Deflation**
- Increase in **interest rate, wages, unemployment rate**
- **Unstable Economy - lack of predictability**
- **Income inequality**
- Lack of **consumer confidence**



Lots of division between the rich and poor; a lot less of a middle class.”


Without inflation targets, costs could potentially skyrocket and personal debt could reach levels that are unsustainable...”

# INFLATION AND EMPLOYMENT



# Relationship between employment rates and inflation not obvious to most

- Participants tend to struggle mightily to explain the link between inflation and employment rates. Ultimately after much conversation and when provided with additional context views tend to coalesce around the following key thematic areas.

|  |  |
|--|--|
| <div>Employment rate?</div> <div></div> <div><ul style="list-style-type: none"><li>• Employment and inflation tend to be seen as in <b>lockstep</b> with each other</li><li>• Low unemployment rate – <b>more consumption, higher demand</b> for goods, more volatility in the marketplace (higher consumer purchasing power)</li></ul></div> | <div>Inflation rate?</div> <div></div> <div><ul style="list-style-type: none"><li>• Higher employment leads to more disposable income</li><li>• More disposable income will lead to an <b>eventual Inflation rate increase as consumers have more money to spend (low unemployment rate)</b></li><li>• High inflation leads to increases in <b>unemployment as labor costs go up and employers streamline workforce in order to cut costs.</b></li></ul></div> |
|--|--|

## IN THEIR OWN WORDS...

- “If employment is too high (unemployment too low) that would cause higher inflation.”
- « L’inflation c’est un signe de la croissance. Plus il y a d’inflation, plus il y a de croissance au niveau des prix. Si on a un faible taux de chômage, ça veut dire que plus de gens travaillent, plus de gens dépensent - ça fait monter le taux d’inflation. »

# Relationship between wages and economic performance

What do higher wage rates signal about overall performance of our economy?

- The economy is performing **well**
- **Higher consumer purchasing power** - consumers are spending more
- The economy is **flourishing** – employers have the ability to pay their employees more

Other likely effects of higher wages on our economy?

- **Increase in consumer prices** - unpredictable costs of products
- **Strong economic growth** will eventually lead to **high inflation**
- **Wealth inequality – increased likelihood of eventual financial polarization**

**IN THEIR OWN WORDS...**

- *“It says that employers have the ability/need to pay employees more. They're making more and can pass it along. But also, that they need to pay more to attract employees.”*
- *“The economy is performing well. There is inflation on wages. The economy is strong.”*



# Relationship between wages and the economy

What about when wage hikes slow down or don't happen at all - what do they say about the overall performance of our economy?

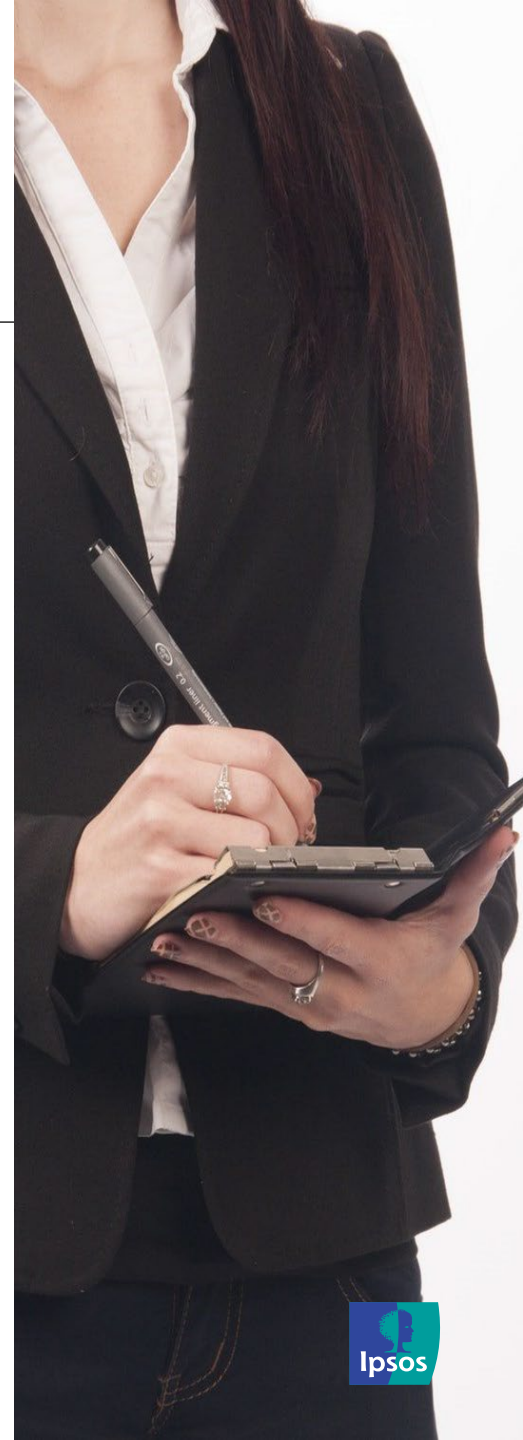
- **Slow** economic growth
- Increase in **consumer debt**
- **High unemployment rate**
- **Low** consumer purchasing power

What are the likely impacts beyond your household budget

- Consumers are likely to spend more cautiously – **less spending**
- Substantial **increase** in personal **debt** due to high interest rate
- **Income inequality** – employers may pay their employees less when the economy is stagnating

## IN THEIR OWN WORDS....

- *"That perhaps the economy is stagnating. Employers feel they need to keep money more for themselves."*
- *"Economy isn't doing as well; we the consumer spend less which, in the long run, doesn't help the economy."*
- *"Economy is struggling; people will spend less; people can afford less"*





# INFLATION AND INTEREST RATES



# Relationship between interest rates and inflation

- For the most part participants are more likely to intuitively understand the relationship between interest rates and inflation. This concept is more relatable for many (credit cards, interest on savings, mortgage rates etc.)

## Interest rate?



- Most participants recognize that **interest rate increases and decreases and inflation are interconnected.**
- They also feel that a **balance** between interest rate and inflation would help to stabilize the economy

## Inflation rate?



- For many interest rates are seen as the **main mechanism** the Bank uses controls inflation in order to hit its targets
- Adjusting interest rates **indirectly affects the unemployment rates** which in turn affects inflation

## IN THEIR OWN WORDS...

- "If inflation goes up rates go up, and if inflation goes down, rates go down."*
- "This doesn't make a whole lot of sense to me. Regardless how much I borrow, I still get the same amount of money to spend; it's just a difference of when I'm spending it."*

# OVERALL DISCUSSION



# Benefits and drawbacks associated with setting inflation targets



## BENEFITS

- **Certainty** and **predictability** – the ability to plan ahead
- Ensure **Social cohesion**
- **Stable** economic growth
- High **consumer confidence**
- Government control over **consumer prices**
- **Foreign investment**



*Si le peuple ne peut pas se loger ou se nourrir, c'est là que ça augmente et ça ne va pas bien. C'est la cohésion sociale, c'est ça qu'on voit un peu à l'extérieur du Canada et dans le monde. »*



## DRAWBACKS

- **Wage stagnation**
- **Slow** economic growth
- Only effective **as long as wage increases keep pace with rate of inflation**



*None that I can think of, other than setting a bad target."*

*Wages will stagnate"*

*May increase inflation at a steady rate, when wages might not be increasing at the same rate."*

# When given the choice between to statements most feel the focus should continue to be inflation targeting.

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## Statement #1

I think inflation targets make sense – they help ensure we have a stable and predictable economy.

## Statement #2

Inflation isn't an issue anymore so rather than inflation targets the Bank should focus more on other targets like growth or full employment.

**Most believe that the Bank's primary focus should continue to be targeting inflation.**

When pressed some participants suggest that the Bank should also consider:

- interest rate
- unemployment rate
- minimum wage
- home ownership
- national deficit/debt levels



**THANK  
YOU.**

