NEWS RELEASE

Higher inflation rates may not be 'transitory'—could persist absent policy change

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VANCOUVER—According to central banks including the Bank of Canada, today's above-average inflation rates are mainly due to global supply-chain disruptions related to the pandemic—and therefore are transitory and likely short-lived—but a host of factors could prolong higher inflation, finds a new study released today by the Fraser Institute, an independent, non-partisan Canadian public policy think-tank.

"While COVID's effect on the economy has certainly contributed to the rising cost of goods and services, if central banks and governments continue their aggressive policies, higher inflation could persist even after the pandemic subsides," said Steven Globerman, professor emeritus at Western Washington University, resident scholar at the Fraser Institute and co-author of ***The Outlook for Inflation and Its Links to Monetary Policy***.

In response to the pandemic and recession, centrals banks have dramatically increased the money supply (mainly by purchasing bonds from governments including Canada's federal government). As a result, recent inflation rates have been much higher—for example, Canada's rate hit 4.4 per cent in September compared to the average annual rate of 1.9 per cent the country experienced since 1991.

Many central banks, including the Bank of Canada, have indicated they believe inflation rates will return to normal levels after the pandemic subsides. However, the study finds that—absent a change in policy at the central banks and government—higher inflation rates may persist due to the following factors.

- aging populations in developed countries including Canada, which will contribute to slower growth of the labour force, reduced entrepreneurship, fewer new business startups and slower overall economic growth
- higher business taxes and more government regulations, which discourage business investment and slow productivity growth
- energy mandates (e.g. Ottawa's emissions cap for Canada's oil and gas sector), which divert resources away from private investment and raise energy costs
- possible faster "turnover" of the money supply and/or accelerated rate of spending in the economy

"If central banks want to ensure that today's higher inflation is transitory, they need to stop injecting unprecedented amounts of money into the economy and return to a more measured monetary policy," Globerman said.

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