

# **Pick Your Poison:**

Inflation, Recession ... or Both???

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Centre for  
**Future**Work

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# Economics: The “Dismal Science”



# A Cure Worse than the Disease?

Toward a More Balanced Understanding of Inflation and What to Do About It

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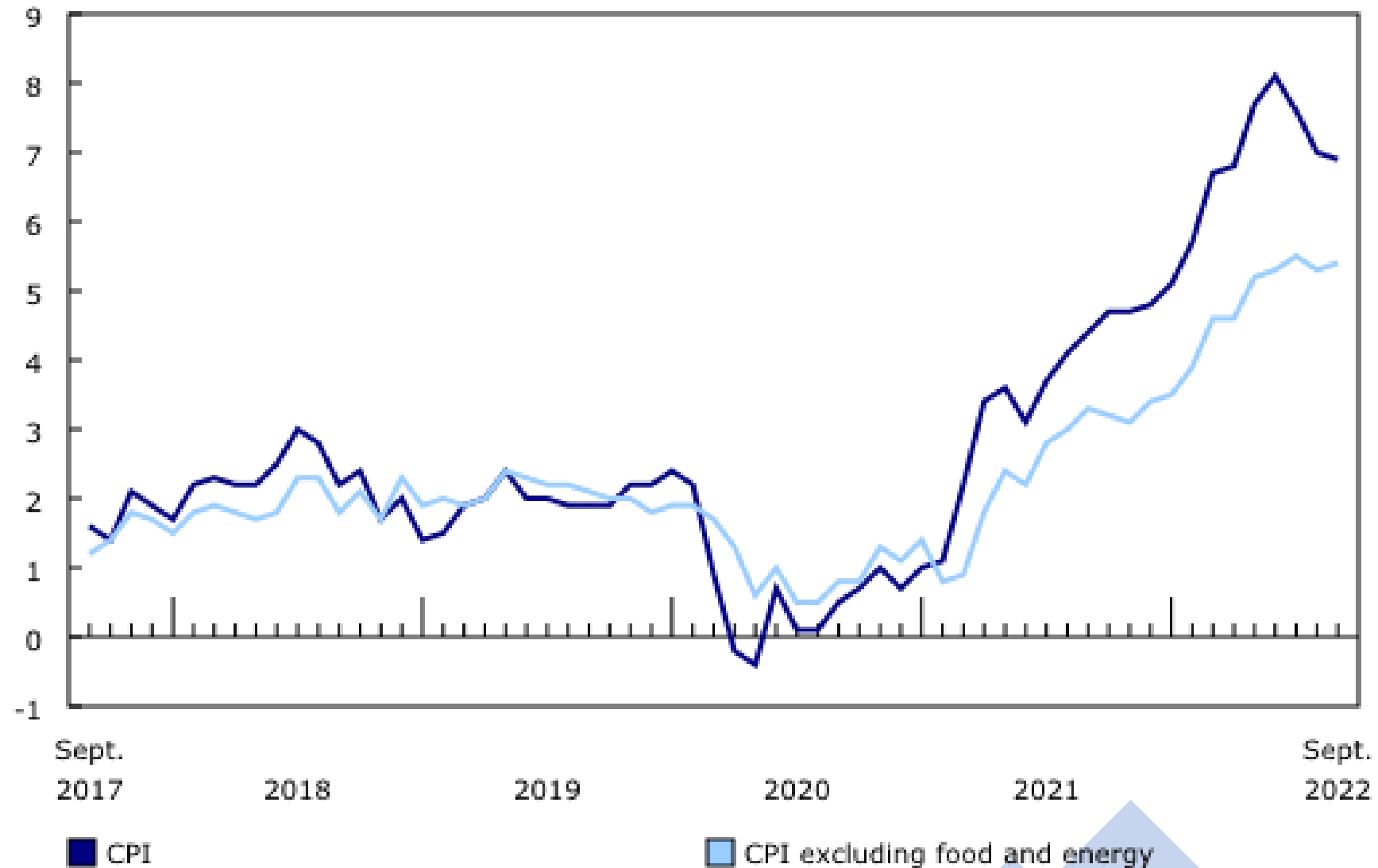
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CANADIAN LABOUR CONGRESS

# Accelerating Inflation

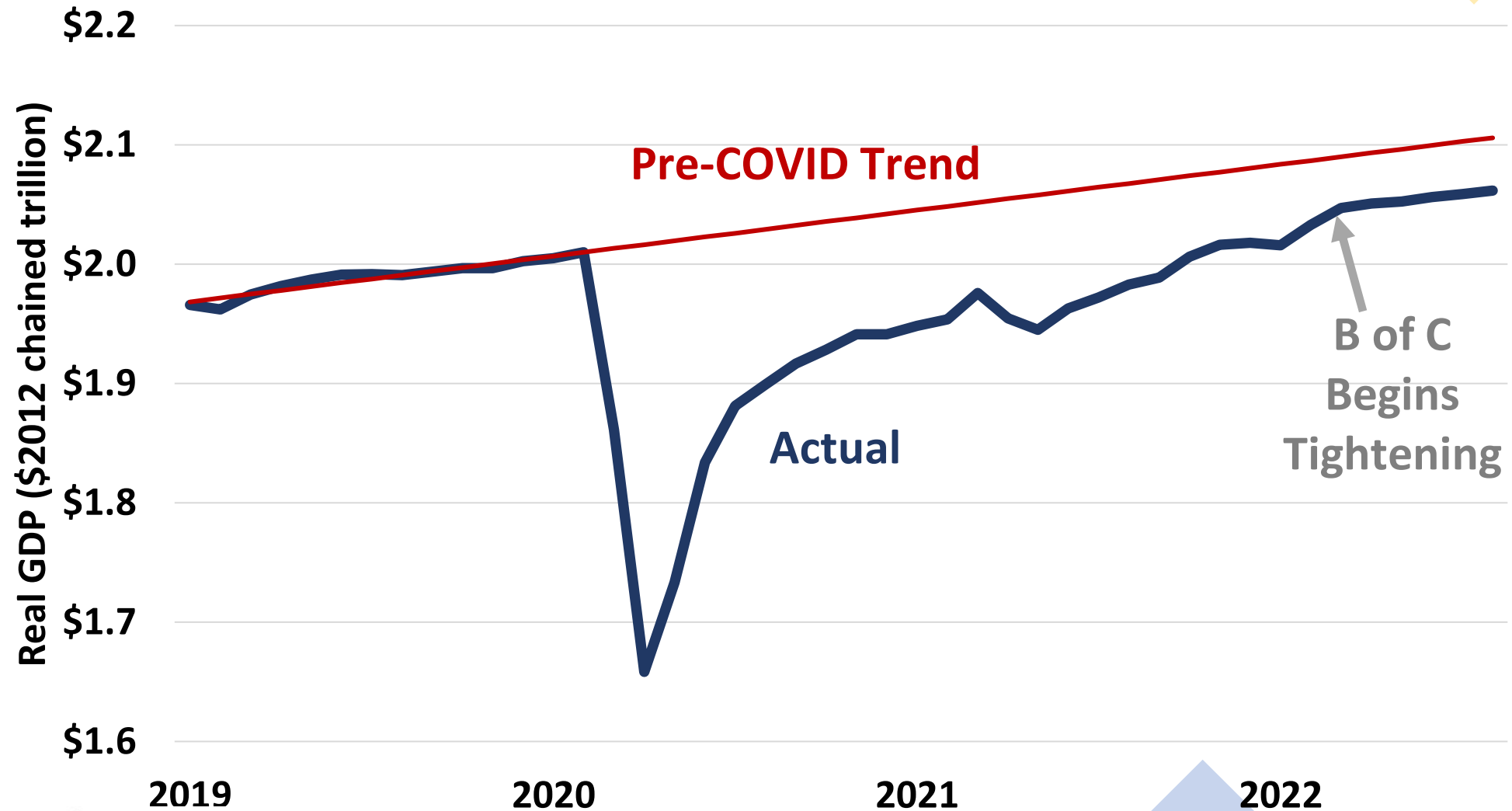
12-month % change



# Inflation Outlook

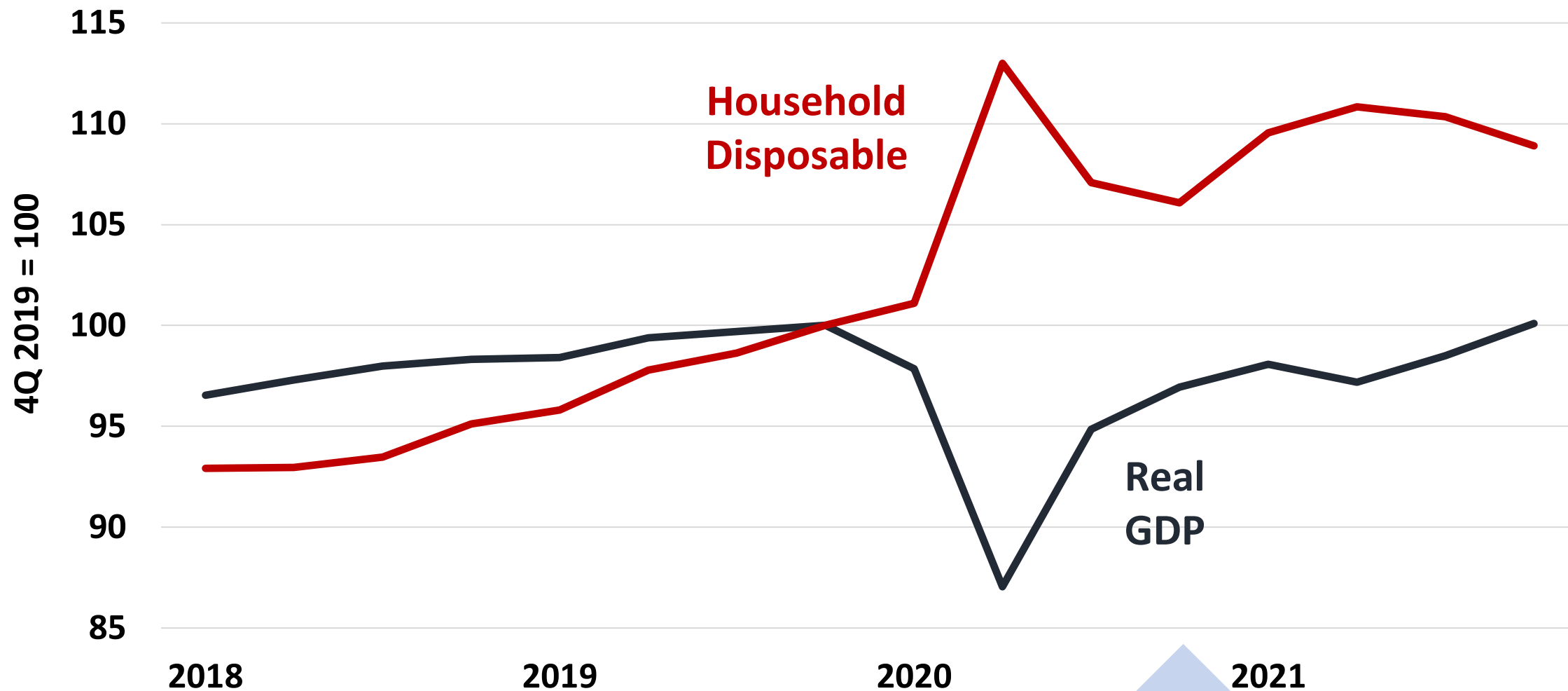
- Some of it is transitory.
  - Supply chain problems.
  - Surge in pent-up spending.
  - Goods / services rebalancing.
- Some of it is global (energy).
- Some factors already abating.
- Has spread into other parts of the domestic economy.
- Bank of Canada predicts 3% by end-2023 and 2% by end-2024.

# Still Repairing the Damage





# Income Up, Output Down



# Commodity Price Deflation Underway

Source: ARK Invest

	Peak Closing Price Date	Peak Closing Price	Peak Closing Price to Last Close Percent Change	Closing Price YoY Percent Change
Gold	8/6/2020	2,064	-18%	-3%
Silver	8/10/2020	29	-31%	-11%
Lumber	5/7/2021	1,686	-74%	-34%
Iron Ore	6/29/2021	1,387	-45%	+7%
DRAM	7/9/2021	5	-46%	-34%
Baltic Dry	10/7/2021	5,650	-65%	-65%
Copper	3/4/2022	493	-31%	-20%
Oil	3/8/2022	124	-25%	+18%
Corn	4/29/2022	818	-16%	+28%
Container Board* (OCC)	–	–	–	-53%

# Energy Costs: Digging Deeper



# Energy Costs: Digging Deeper

- Ukraine war has not reduced world supply.
  - Price surge is speculative.
- Gasoline we use was made with Canadian oil pumped months ago.
- Deregulated globalized energy system (and our domestic mirror) is the source of the problem.
- Petroleum companies are making unbelievable profits.

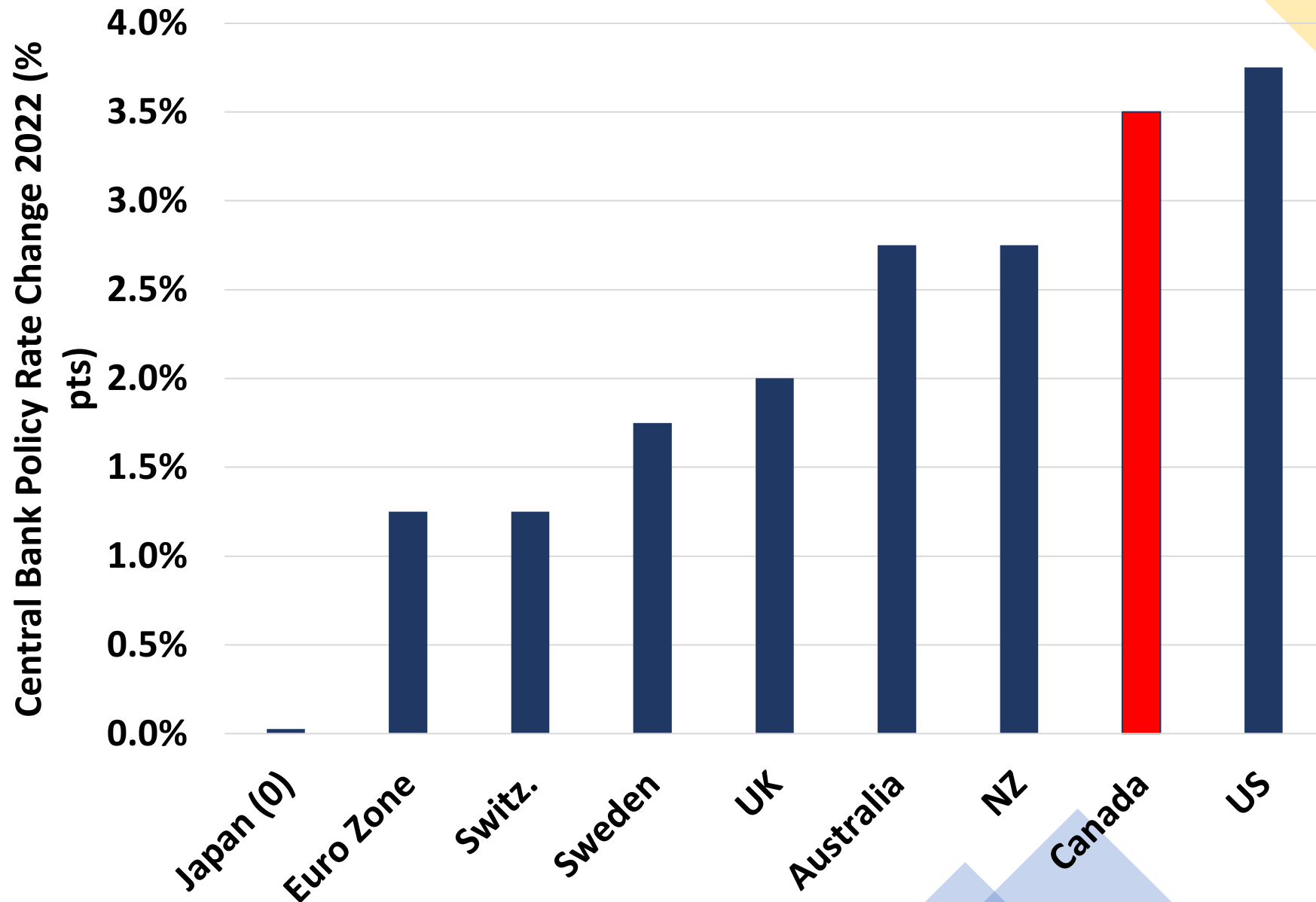


A Cure Worse than the  
Disease?

# Global Monetary Tightening

- Central banks have launched a new crusade to stop inflation.
- 50 countries have raised rates so far this year.
- That will reduce inflation (via slower global growth) regardless of what the Bank of Canada does.
- Canada near the front of the pack.

# Global Interest Rate Increases



# Swimming Against the Tide

- Higher interest rates make some things MORE expensive.
  - Esp. housing (30% of CPI).
- They have no impact on imported, energy, or supply chain inflation.
- They undermine govt budgets.
- Ultimate goal: slow down growth, job-creation, & spending power.
  - That could (painfully) offset other price pressures.



# Learning from History

- Effects of higher interest rates on real economy take 12-18 months.
- Financial and asset market effects can be felt much faster (stock markets; housing; speculative assets (crypto); sovereign debt.
- This scale of disinflation (5+ points) and this scale of tightening has never been done without a recession.



# A Cautionary Tale

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# How Bank Collapses Happen (1890)

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# How Bank Collapses Happen Today

- Interest rate shock.
- Rapid changes in asset prices.
- Leveraged investors (playing with borrowed money) can't cover losses.
- Margin calls require them to sell at fire sale prices.
- Investors can collapse.
- Lenders who lent to them can collapse.
- Growing signs of fragility today.

# Blame the Victims

- Bank of Canada argument: if wages keep up with inflation, that will cause more inflation.
- It doesn't matter whether wages caused the initial inflation or not.
- So wages must be suppressed, even though prices are rising faster.





Tiff Macklem:  
Labour Markets  
are  
“Overheated”

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# One-Sided Worries

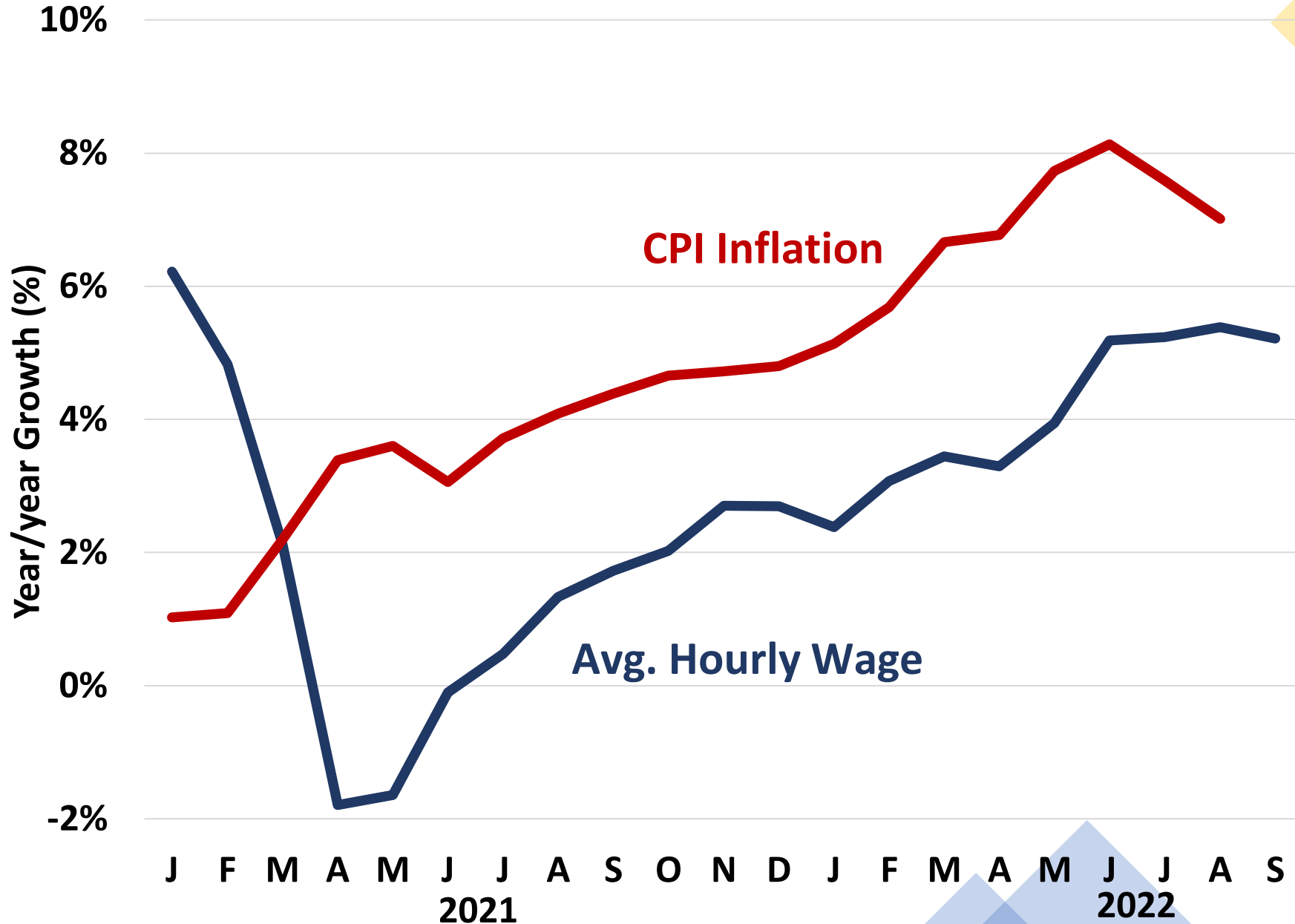
- Bank of Canada stresses labour market factors & domestic demand in inflation.
  - “Labour shortages”
  - “Rising wages”
  - “Excess demand”
- Bank of Canada reports do not mention profits at all.
- If demand is greater than supply, the problem can be too little supply.

# “Wage-Price Spiral”: Still Waiting!

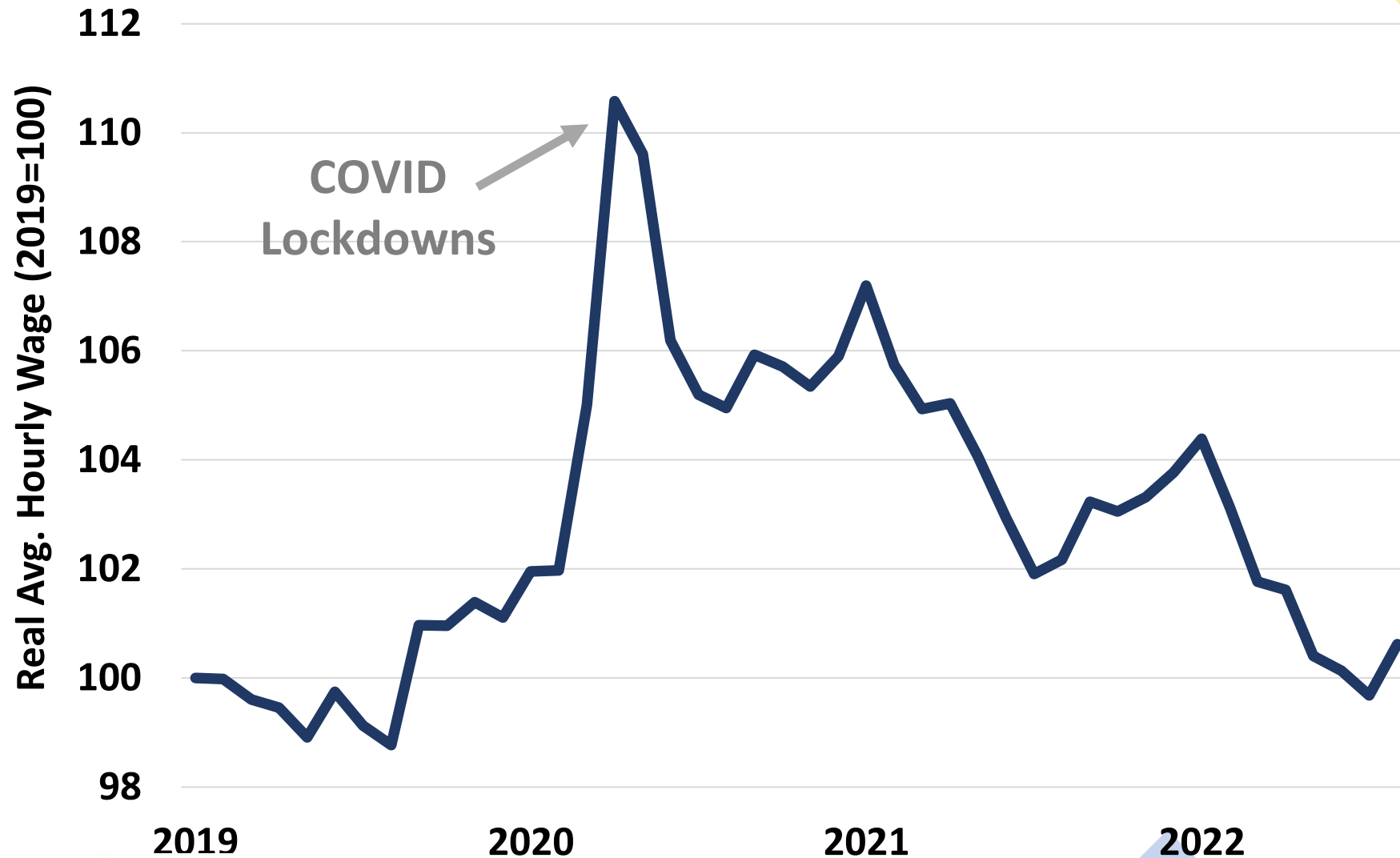
- Nominal wage gains have lagged inflation, despite low unemployment.
- Average hourly wages up about 5% yr/yr.
  - Some of that is ‘composition.’
  - Fixed-weight measures: 4%.
- Real wages have declined 5% since re-opening.
  - More decline ahead.



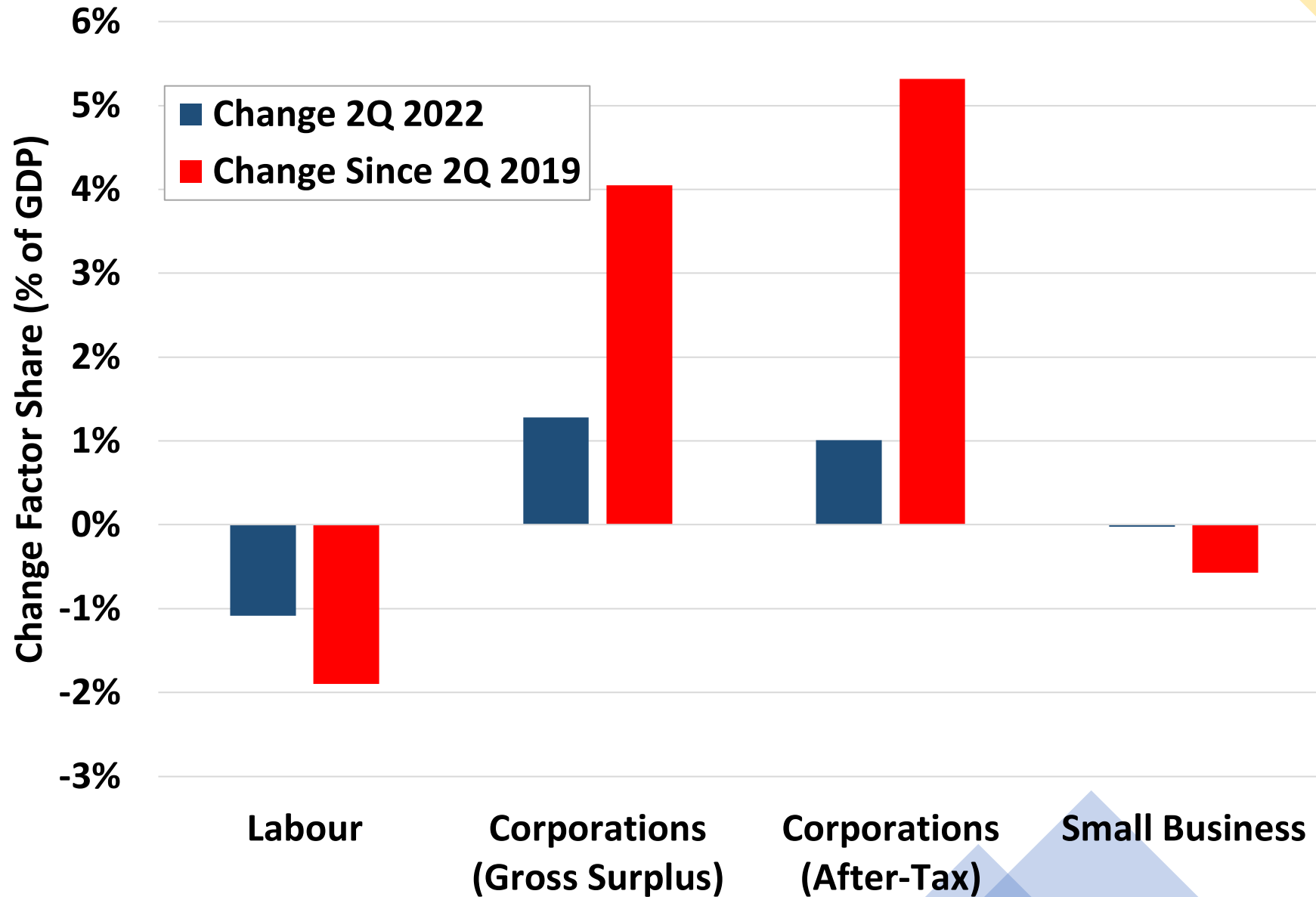
# Prices Winning This Race



# Real Purchasing Power Eroding



# Labour's Share of Pie has Fallen



# Inflation has Boosted Profits

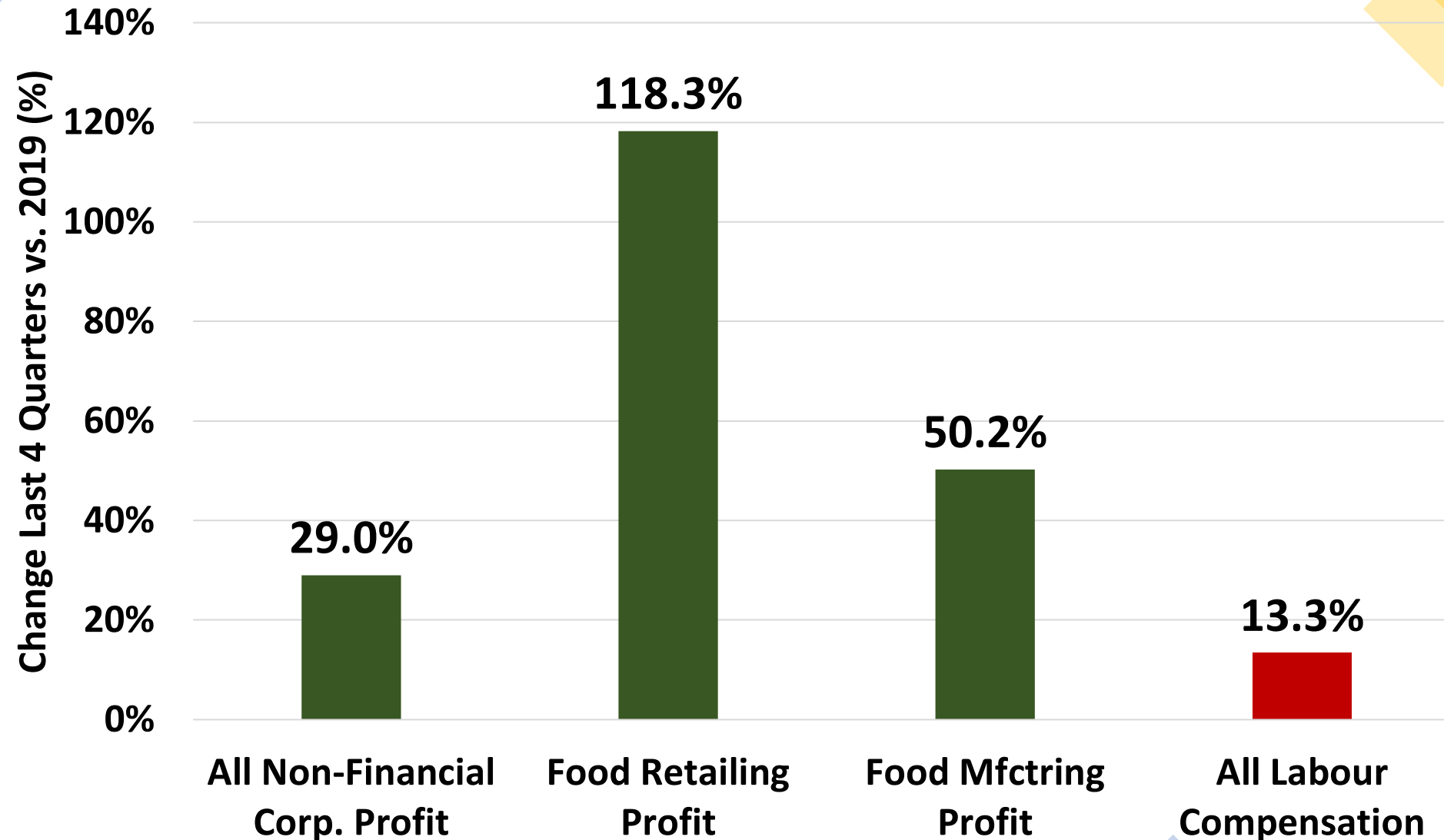
## Corporate Profit Share



# Supermarkets and Grocery Prices

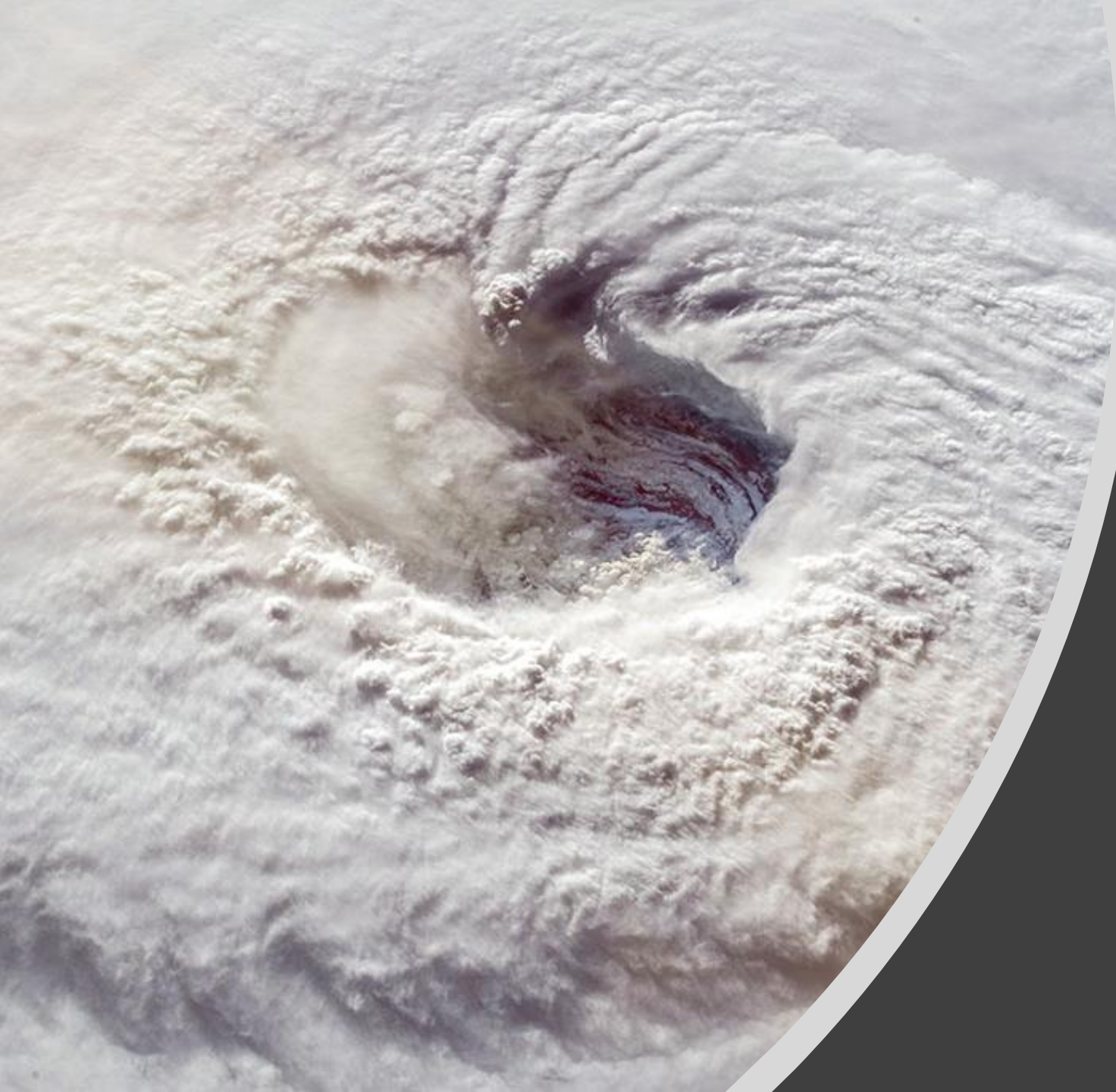
- Grocery prices up 11.4%.
- Are consumers being “gouged”?
- Yes, input costs have grown.
- But profits are definitely up.
- Retailers are passing on higher costs, and then some.
- “Narrow margins”??? No.

# Growth in Profits & Wages Since 2019



# A Better Plan for Inflation

- 1. Balanced, Targeted Monetary Policy**
- 2. An Active Role for Fiscal Policy**
- 3. Government Actions to Address True Causes**
- 4. Redistribute Excess Inflationary Profits**
- 5. Negotiation & Planning in Labour Markets**
- 6. Patience**



# The Coming Storm



# The Coming Storm

- Monetary orthodoxy causing a world recession.
- It won't be short.
- Macro & fiscal implications will be severe.
- Expect financial ruptures in weak links.
- Political implications could be dramatic and anti-democratic.

# Signs of a Slowdown

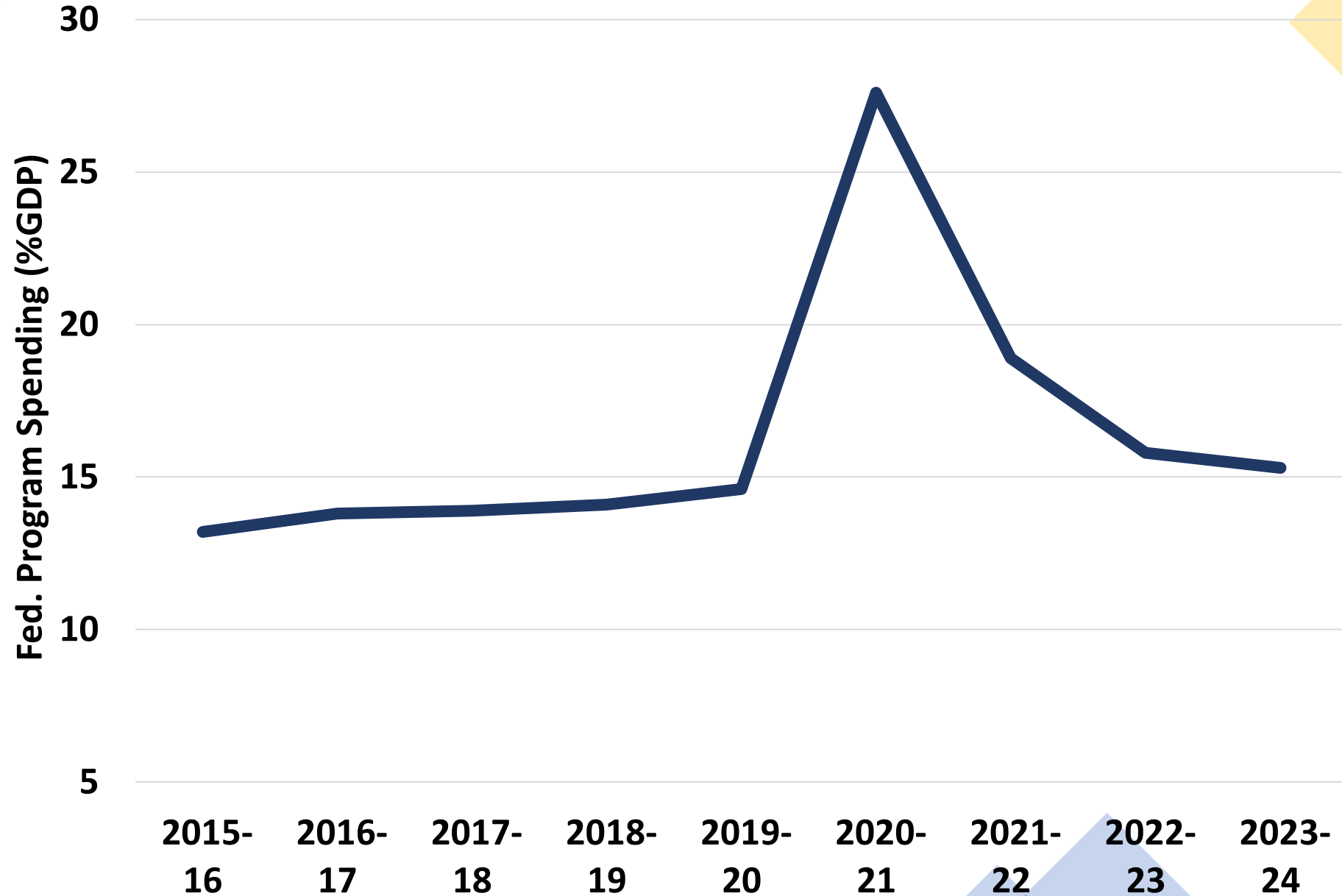
- Employment down almost 100,000 last 4 months.
- Housing prices and turnover falling.
- “Wealth” shrinking (housing, asset markets).
- Durables purchases way down.
- GDP growth approx. 1% in 3Q.
- Bank of Canada: 50-50 chance of recession.
- Me: more like 90-10.



The Other  
Shoe...



# Clawing Back Spending



# Fiscal Austerity on Top of Monetary Tightening

- Fiscal policy has become far tighter in last 18 months.
  - Phase-out of COVID programs.
  - Tax increases from inflation.
- Yet narrative of “overspending” dominates the discourse.
  - Poilievre attacks.
  - Government defensive.
- Freeland, Carney: stressing the wrong lessons from UK experience.

# What Government Should Do in a Recession

- Restore access to EI & other income supports.
- Expand spending on public services (eg. health care).
- Support wages and collective bargaining so workers can keep up.
- Invest to address root causes of inflation (housing, transport, energy).

# Left Priorities at a Dangerous Moment

1. Try to avert disaster by advocating for a change in course.
2. Equip our constituencies with a narrative that explains what happened and why.
  - Different than Poilievre's!
3. Advocate for forceful action by government to protect victims and accelerate rebuilding.
4. Fight to protect our members and constituents.

# Key Takeaways:

- Workers are producing more than ever.
- Workers are getting us through the pandemic.
- Workers did not cause this inflation.
- Workers will not tolerate a permanent income cut to solve it.
- A recession will make things worse.



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**Thank  
You!**