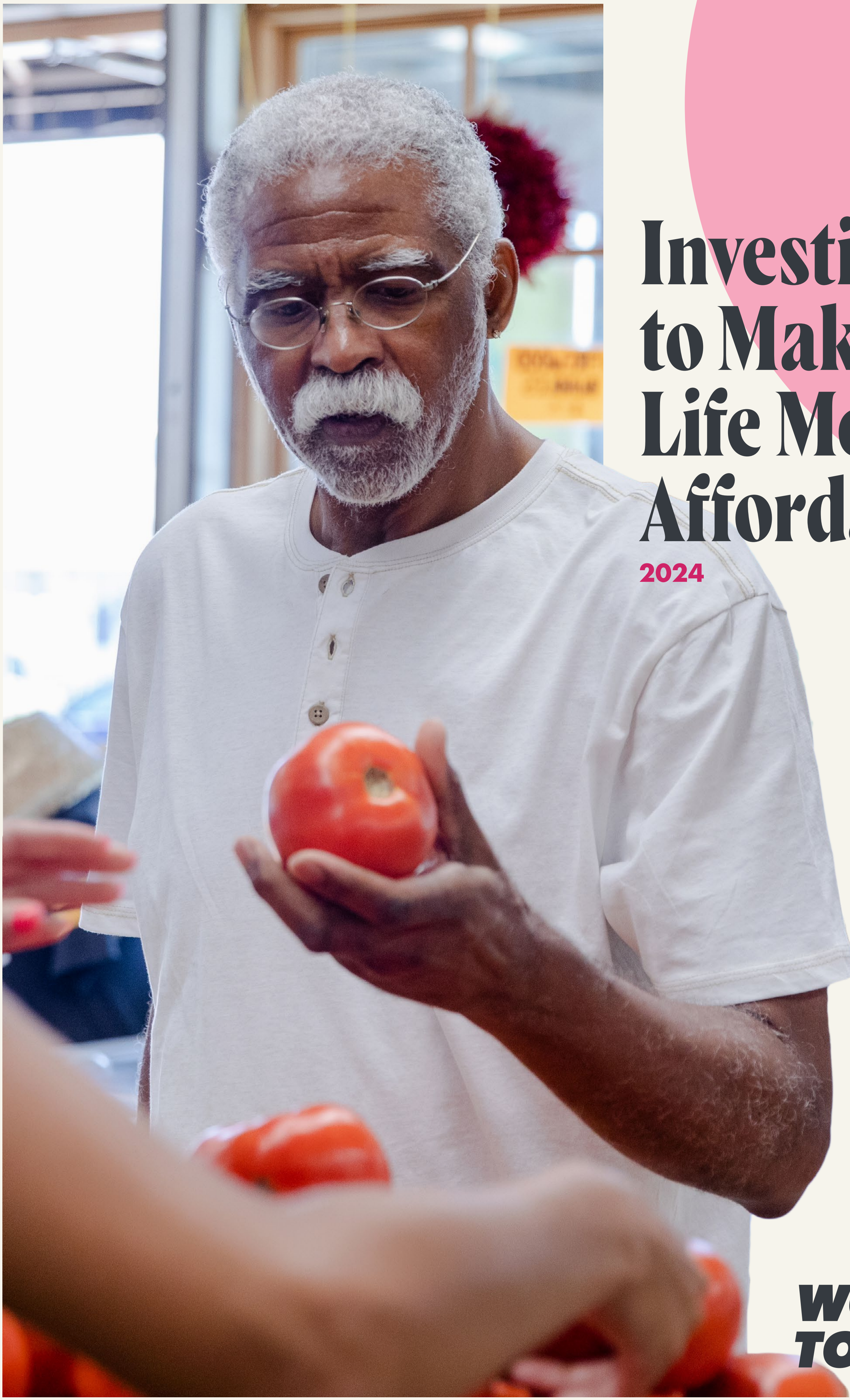

Investing to Make Life More Affordable

2024

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Introduction

If there are two words that capture Canadians' experience of the last three years, they are "affordability crisis". High inflation, followed by interest rate hikes, alongside economic stagnation and rising unemployment are squeezing people's budgets and making the future more uncertain. However, this has not been experienced equally by all Canadians. While inflation made life more expensive for average families, corporations collected record profits and delivered record dividends to their wealthy owners. This is not a coincidence.

There are two components to affordability: cost-of-living and income. The two components are captured by purchasing power: how much can we purchase with our income? When the cost-of-living increases, but our income stays the same, then our purchasing power decreases. That is what we experienced during the high inflation of 2021-23. Our purchasing power was significantly eroded. Average purchasing power has returned to its 2019 level as incomes have increased. However, this recovery is very uneven. Further, our primary cost-of-living measure, the Consumer Price Index (CPI), flattens and obfuscates the varying expenses faced by different social.[1]

For example, and most prominently, although CPI inflation has fallen to less than two percent, rent continues to climb at more than eight percent. That means the cost-of-living for renters is rising more than homeowners. CPI also does not include house prices, which is one of the major sources of unaffordability for younger people.[2]

The other side of rising prices are the sellers, such as big grocery and rental corporations. They have benefited from higher prices, which increased their profits. To add insult to injury, the wealthy owners of these corporations also benefited from higher interest rates, which drove up the returns on their financial assets. Distribution is an important, under-discussed aspect of affordability.

The recent bout of inflation, and its lingering and unequal impact on affordability, should be a wake-up call. The current approach to managing inflation makes it solely the responsibility of the Bank of Canada. This approach has failed. To make life more affordable requires federal action on wages, income supports, housing, prices for essentials, publicly-funded health care, and taxes. The mandate of the Bank of Canada must also be expanded to include full employment alongside price stability.

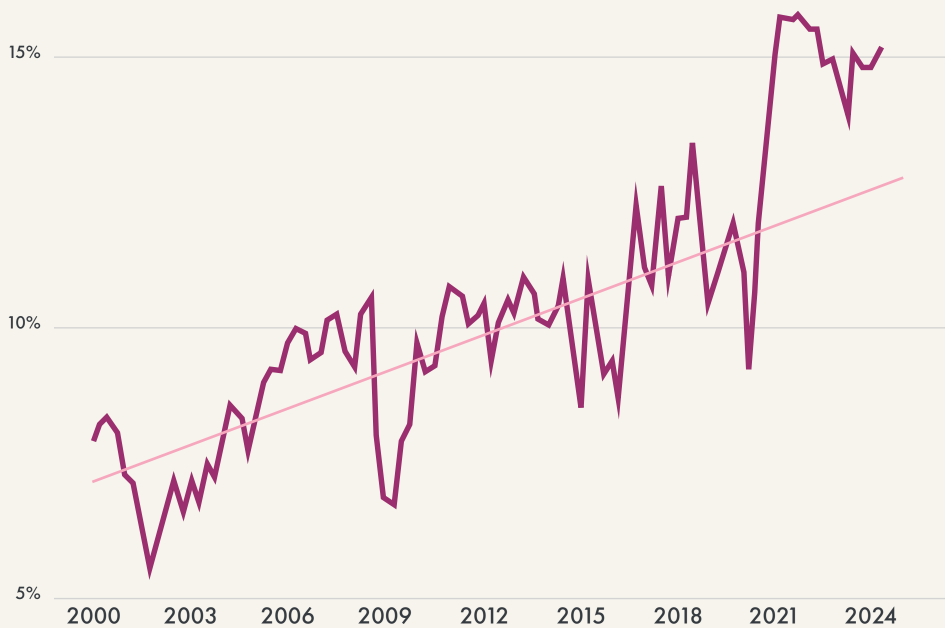
1. The 'Consumer Price Index' is based on a representative basket of goods that corresponds to the average composition of consumer spending.
2. Housing is included in the CPI via 'mortgage interest expenses', 'rent' and a few other items. Buying a home is not included because the CPI is intended to capture the cost of consumption—including the 'consumption' of housing services—but not the cost of acquiring an asset like a house.

Cost-of-Living

Headline inflation—the year-over-year change in CPI—first exceeded 3% in April 2021 with gas prices the main driver. The Bank of Canada's preferred measures of 'core inflation' were both at 3% by August.[3] Headline inflation would remain elevated until May 2023, with core inflation above 3% until March 2024. At its peak, headline inflation was over 8%. As of September 2024, the CPI is 15% higher than in early 2021.

The Bank of Canada's first rate hike was in March 2022. By July 2023, it had hiked nine more times, reaching 5%, a level last seen in 2001. Although inflation slowed over this time period, the Bank does not deserve the credit. Interest rate hikes did nothing to deal with the primary cause of inflation, which were supply chain issues associated with the pandemic, Russia's invasion of Ukraine, and natural disasters like the 2022 flooding in B.C.

CANADIAN CORPORATE MARKUPS 2000Q1–2024Q2



Calculations by author. Markup is operating profits divided by operating expenses.
Trendline is for 2009–19: StatCan table 33-10-0007-01. 2010-: StatCan table 33-10-0224-01.
Values for 2010-9 splice together data from both tables.

Rate hikes also did not address the corporate profiteering that made inflation worse. Canadian corporate markups were already at record highs before the pandemic. But they were turbo-boosted by the pandemic. Higher markups on higher costs have delivered massive record profits.

Higher interest rates actually kept inflation higher for longer by driving up housing costs. Mortgage interest expenses and rent, the two components of CPI most sensitive to interest rates, have been the two biggest sources of inflationary pressure. Higher rates also undermined investment, especially in housing development. This contributed to Canada's current economic stagnation and rapidly soaring unemployment rate.

Several of the policies recommended to win investments for workers and strengthen public health care would have the added benefit of reducing and stabilizing the cost-of-living for Canadian families.

- Expanding Pharmacare and Dentalcare and including mental health care in our publicly-funded system would eliminate the expense of these essentials, which can create serious strain for middle class families and be out-of-reach for those with low income or precarious employment.
- Investing in high quality public long-term care leaves more money with families by using public funds to meet care standards instead of corporate profit targets.
- Developing health care and childcare staffing strategies will allow all families to access the timely care they need and reduce the expenses that can be incurred when waiting to access public care.

Additionally, we need the government to

- Invest in sustainable, resilient transportation infrastructure to secure supply chains.
- Create a windfall profit tax to return the ill-gotten profits from high inflation to public hands.
- Create an excess profit tax that can be invoked during periods of rising inflation to reduce the incentive of corporations to exploit inflationary crises and hike profit margins.

3. The Bank of Canada's preferred measures remove the products with the most price volatility to get a better picture of price trends among consumer products and over time. The Bank's target range for inflation is 1-3%.

Groceries

Grocery price inflation took off later, rose more sharply, and remained elevated longer than overall CPI. They are now 23% higher than before the high inflation. Some food products rose even more. For example, cooking oils are 75% higher, pasta is 35% higher, fresh & frozen chicken is 30% higher, baby foods are 25% higher.

Higher grocery expenses hit the lowest income households the hardest because groceries consume a larger share of their income. Households in the bottom income quintile—the lowest fifth—spend over 26% of their disposable income on food and drink.[4] Households in the highest income quintile only spend 5% on food and drink.

The big grocery chains claimed that they were not responsible for rising prices because they were only passing along higher costs. However, they boosted their profit margins and continue to reap record profits. Unchecked concentration in the grocery sector over the decade before the pandemic gave the chains pricing power. They were able to pass along higher costs and more at the expense of consumers.

Ensuring that essentials, especially groceries, remain affordable requires more action from the federal government. That should start with

- Creation of a consumer protection agency that will
  - monitor prices and identify the causes of higher prices, including throttled production, supply chain fragility, transportation bottlenecks, and corporate profiteering.
  - identify hidden mechanisms of higher cost-of-living like "shrinkflation" and quality reduction.
  - track the pricing behaviour of sellers to identify tacit collusion or other pricing practices that harm consumers.
  - debunk false narratives about the causes of inflation.

Study of other potential tools for ensuring price stability, including price caps, buffer stocks for vital inputs, Crown corporations to anchor prices, and public provisioning. This will support development of policies to allow the proper tool to be used for the various causes of inflation.

Making illegal the use of discriminatory algorithmic pricing and individualized digital pricing.

4. Excludes alcoholic beverages.

Housing

Canada is experiencing an unprecedented housing crisis. Accessing affordable housing is a challenge for people throughout the country in large, small and mid-sized cities, towns and rural areas, and throughout the North. Tenants are facing more evictions and homeowners increased mortgage rates. As rents continue to rise and homeownership is out of reach for many, accessing safe, adequate, and affordable housing is increasingly a challenge. Workers need deeply affordable housing now.

Nearly 12% of households in Canada (over 1.5 million people) are in core housing need. This means that people are living in housing that is not affordable, not adequate and not suitable. Housing is considered unaffordable if monthly housing costs are more than 30% of a households before-tax income. Housing is inadequate if people are living in a home where major repairs are required. Housing is not suitable if there are not enough rooms for the size and makeup of a household.

Affordability is the key factor for 88.4% of the Canadian households experiencing core housing need.[5] Racialized (14.1%) and Indigenous (17.9%) households are living in more core housing need. Renters are in more core housing need (22%) than homeowners (6.1%). As the cost of living continues to rise, a higher percentage of Canadians are experiencing financial difficulty, often due to rising rents and increased mortgage payments, both of which that nearly doubled between 2018 - 2022.[6]

It is time for the federal government to intensify their efforts in alleviating the housing affordability crisis. No one should be living in core housing need in Canada. We need affordable, adequate, and suitable housing for **all** now.

Since the implementation of the *National Housing Strategy (2017)* and the recent *Solving the Housing Crisis: Canada's Housing Plan (2024)* more efforts have been made by the federal government to address housing affordability than in the previous 30 years. We have seen new initiatives that aim to support tenants, make public lands available for housing, strengthen municipal infrastructure, build more apartments, and generally increase housing supply. However, it is not enough. It prioritizes low-cost loans for private sector development over building homes for those most in needs.

This approach pits levels of government against each other. This blame game needs to stop. It is time for **ALL** levels of government to work together. Federal, provincial, territorial, and municipal governments must go all in. We need all hands on deck!

A 'war time' effort to solve this crisis is needed and people in Canada deserve nothing less! Let's move beyond the blame game and make real changes now.

RECOMMENDATIONS

1. The federal government must prioritize and facilitate the construction of non-market housing.

It is time for the Federal government to get back in the game of building non-market housing (including public, community, non-profit, and co-operative housing). The CMHC has not built public and/or non-profit housing since the early 1990s. This needs to change. Ottawa needs to make up for lost time. It has been over 30 years since the federal government withdrew from investing and building public and social housing and we can tell!

Social housing currently makes up only 3.5% of Canada's housing stock, nearly half the OECD average of 7.1%. The federal government must commit to doubling the percentage of Canada's non-market housing stock to meet the OECD average. Canada needs to catch up and do better!

The federal government must commit to creating 500,000 new non-market and rent-geared-to income public housing units within 5 years, make 100% of lands under the *Public Lands for Homes Plan (2024)* available for non-market housing, and allocate 50% of all low-cost loans in the *Apartment Loan Construction Program* for non-market housing.

Let's keep public lands and public funds for public use.

2. The Federal government needs to take a leadership role in providing concrete and immediate protections for renters.

Approximately one-third of Canadians rent their homes. With the vacancy rate falling to a new low of 1.5%, many people in Canada are finding it extremely difficult to find a home.

Tenants need a break. To make rental units more affordable we need to implement a nation-wide rent control strategy that would implement a two-to-five-year moratorium on rent increases beyond 1%.

5. 2022 Canadian Housing Survey New Insights into Housing Needs and Conditions September 10, 2024.
6. 2022 Canadian Housing Survey New Insights into Housing Needs and Conditions September 10, 2024.

Vacancy decontrol is a major cause of rent increases and one way that corporate landlords maximize their profits by increasing rents. When landlords have the option to increase rents without limits between tenancies, they do, with few limitations. This creates an incentive to have high tenant turnover and increases evictions. Corporations are making profit off the back of tenants. This needs to stop.

Ottawa needs to step in and work with the provinces to end vacancy decontrol and reverse the financialization of housing, which contributes to rise rents.

The federal government released a blueprint for a *Renters' Bill of Rights* in September 2024 that aims to protect tenants by calling on provincial governments to document how they are advancing renters' rights. Though this blueprint is a promising first step, it must go further. We need a *Renters' Bill of Rights* that outlines a strategy to stop no-fault evictions, provides guidelines for mandatory rent control strategies, and delivers tangible protections for tenants.

Tenants are workers and workers are tenants. Fighting for tenants' rights **is** fighting for workers' rights.

3. Guarantee the right to adequate housing for all people in Canada.

In the 2017 National Housing Strategy (NHS), the federal government acknowledged that the right to adequate housing should be a fundamental human right. Under the NHS the Government of Canada has committed to making housing a human right under international law.

We need this commitment of the right to adequate housing to be made under domestic law as well as international law. We need housing-specific policies and the adoption of legal mechanisms that ensure these rights exist in domestic and provincial law, and human rights codes.

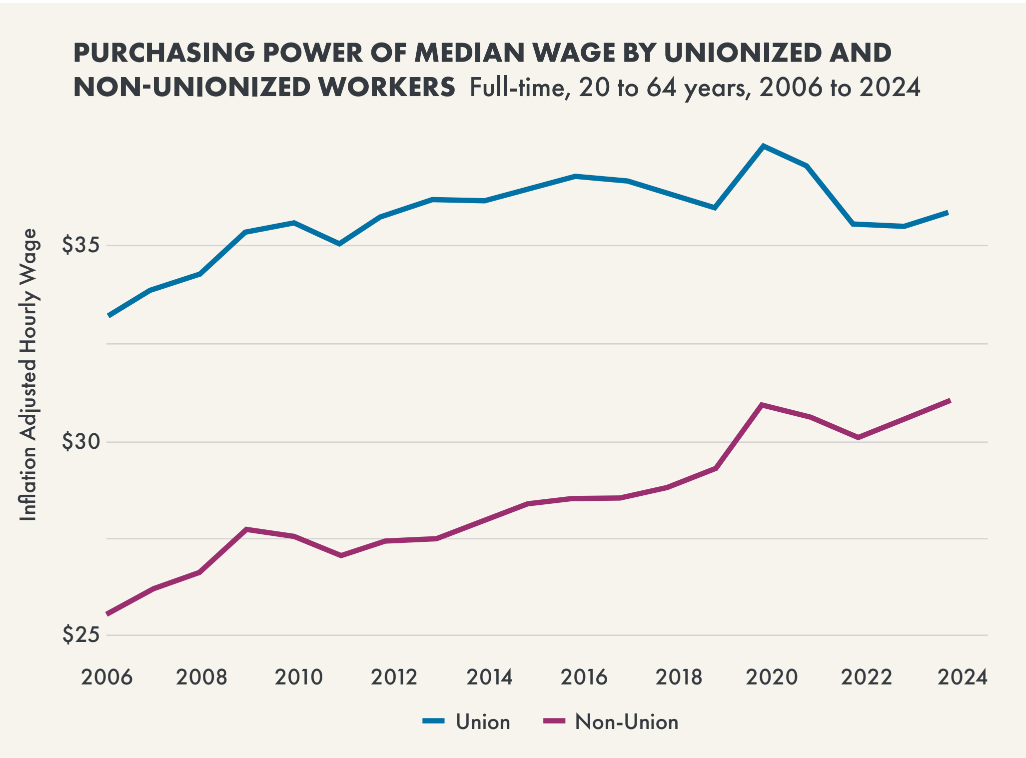
No more talk! Ottawa needs to implement the right to adequate housing that was established in the 2017 National Housing Strategy now.

7. https://www.pbo-dpb.ca/en/publications/RP-2425-016-S--distributional-analysis-purchasing-power-canadian-households-since-2019--analyse-distributive-pouvoir-achat-menages-canadiens-depuis-2019

Incomes

Employment is the primary source of income for most Canadians, with pensions and social supports the next most important sources. Although average wages have regained their lost purchasing power, there is a great deal of disparity in this recovery. Further, too little has been done to assist those living on fixed incomes or the growing number of unemployed people.

EMPLOYMENT INCOME



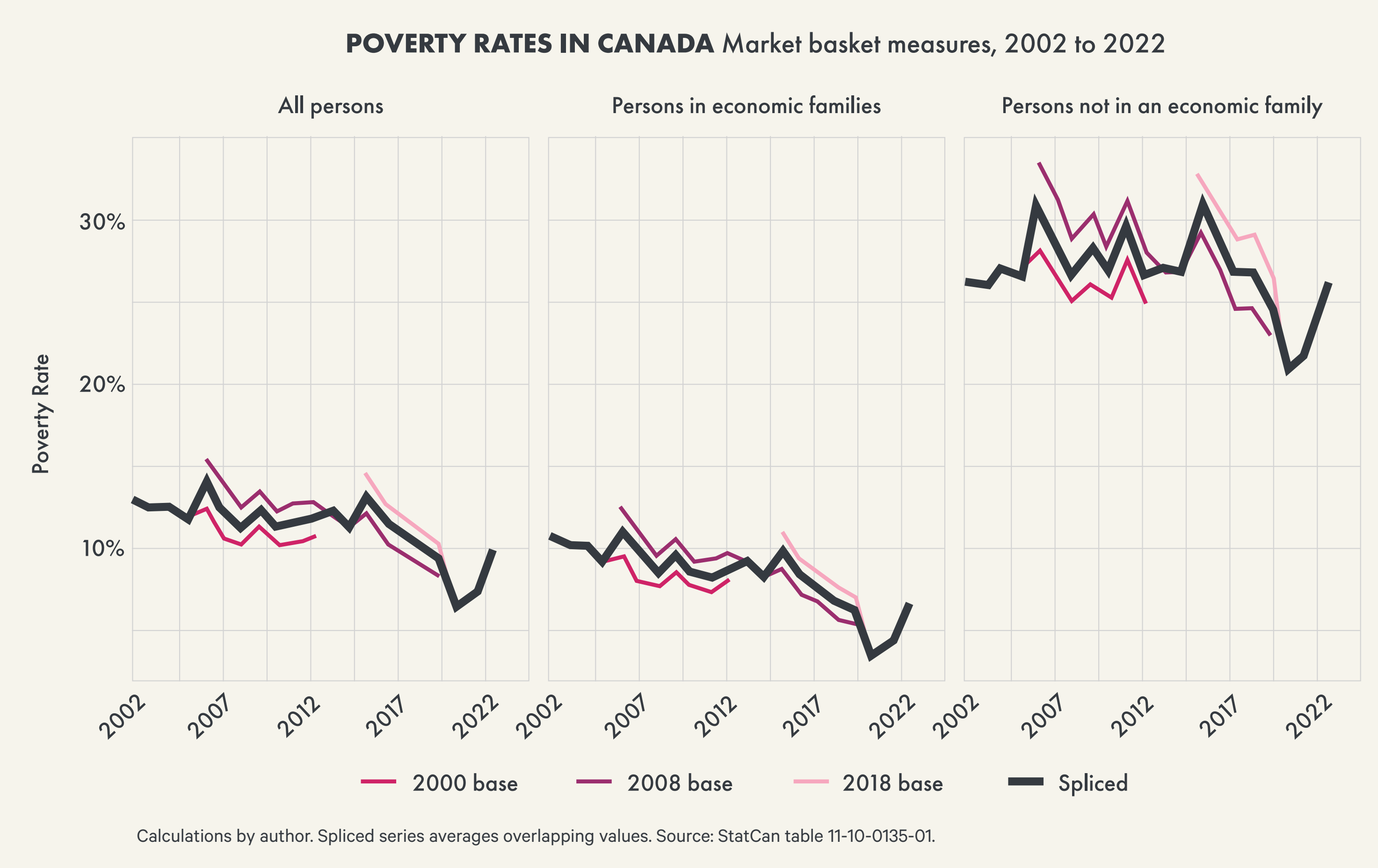
Description automatically generated while average wages have recovered their lost purchasing power the growth of unionized wages has been slower to recover. This means that although union wages retain a strong premium over non-union wages, the average union wage for full-time workers aged 20-65 years remains below its 2019 level. Further, union wages were eroded before the pandemic primarily due to governments attacking public sector unions. This means that average union wages have less purchasing power than they did in 2016.

Wage growth is also being undermined by rising unemployment. Before the pandemic, unemployment was at record lows. It is now a full percentage point higher than those pre-pandemic lows. That is over 200,000 additional people without work. Especially worrisome, the labour force participation of young people is at or near record lows. This reflects growing discouragement.

Rising unemployment was an outcome sought by the Bank of Canada when it hiked interest rates. Because the central bank misdiagnosed the source of inflation as "excess demand", it wanted to cool the economy and reduce workers' bargaining power to slow wage growth. The Bank continues to point to wage growth as a potential source of renewed inflation.

Many of the policies to increase investment would have the added benefit of pushing up workers' incomes. Workers also need stronger income supports, especially employment insurance, to help them navigate increasingly turbulent labour markets and precarious work.

- Reinstatement of the 2021-22 EI 'temporary measures' and restoration of the government's 20% direct contribution to EI would allow broader coverage and a higher level of support
- Investment in social infrastructure and care work would increase the demand for these workers. Higher demand for workers pushes up wages across the economy.
- Stronger pathways to permanent residency for migrant workers would give them better labour protection and make them less susceptible to exploitative employers seeking to cut costs by under-paying workers.
- Promoting unions as a social good supporters workers bargaining back their lost purchasing power

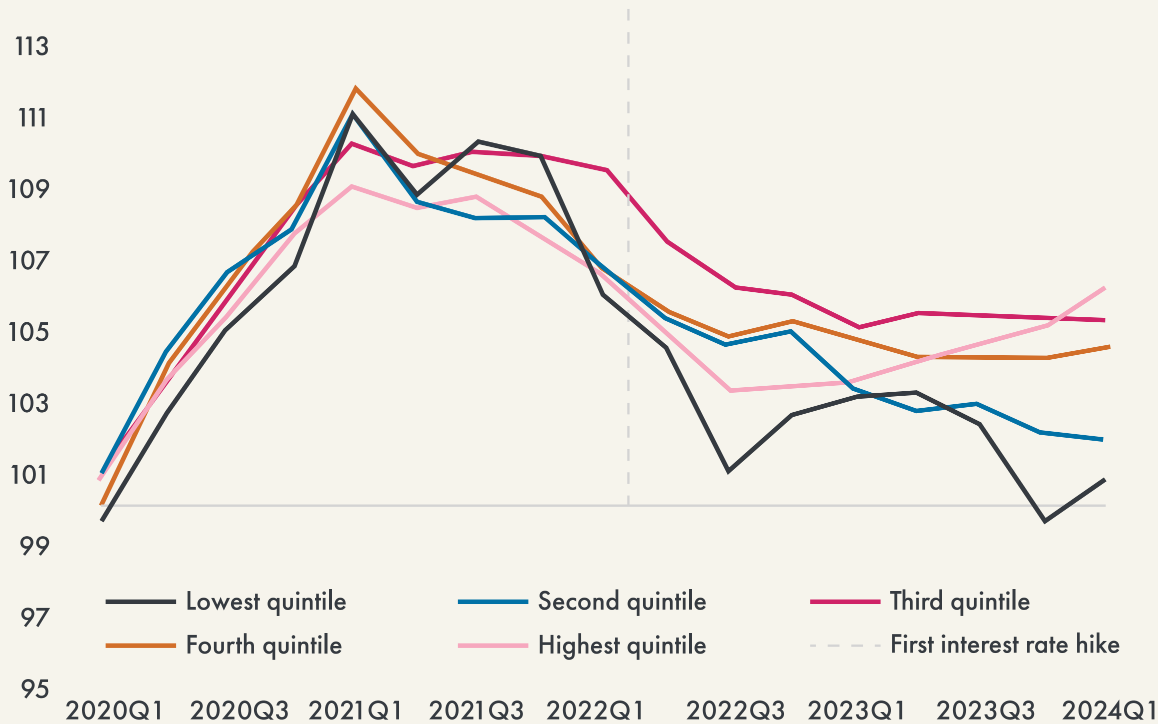


DISTRIBUTION

The number of people living in poverty had its largest one-year drop on record in 2020. This was thanks to the various income supports provided by the federal government during the pandemic-induced public health lockdowns. However, the end of those programs, combined with high inflation completely undid that achievement and the poverty rate in 2022 was higher than in 2019. This is especially worrisome for people who do not live with family. More than one in four live in absolute poverty.

At the same time as poverty worsened, the rich got richer. Research from the Parliamentary Budget Officer showed that although inflation hit all income quintiles, interest rate hikes boosted the income of the Top 20% while they further reduced the income of everyone else.[7] In other words, higher interest rates transferred income from the poor to the rich.

CHANGES IN THE PURCHASING POWER INDEX



Source: Office of the Parliamentary Budget Officer.

The successful reduction of poverty speaks to the effectiveness of universal income support programs. With increasingly precarious work and turbulent labour markets, means-tested supports are always lagging people's needs. That lag can be the difference between someone becoming homeless of not. To improve the lives of those at the bottom of the income distribution we need:

- Increase universal income supports including OAS and GIS.
- Increase the Canada Disability Benefit (CDB) significantly and make eligibility for tax credit automatic for people receiving provincial and territorial disability benefits.

Improvements to distribution requires improvements to our tax system. The most deprived Canadians are also the most likely to miss out on benefits delivered through our tax system. Conversely, the wealthiest Canadians are the biggest beneficiaries of tax loopholes.

- Implement automatic tax filing.
- Finalize the updating of the General Anti-Avoidance Rule (GAAR)
- Further strengthen capital gains taxes.
- Add additional income tax brackets.
- Implement a wealth tax
- Ensure tax fairness by supporting the work of the United Nations to bring about a binding international convention and protocols on tax transparency and ending abusive tax practices.

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