Bank of Canada hikes interest rates, as soaring inflation squeezes workers' incomes

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The Bank of Canada hiked its benchmark interest rate by 0.5 percent last Wednesday, due to mounting fears within the ruling class that surging inflation could fuel class struggle as workers push for compensatory wage increases and the restoration of cost-of-living escalator (COLA) clauses.

The rate hike, the first since 2000, doubled the bank's trend-setting rate to 1 percent. The bank indicated in policy guidance that additional rate increases will be needed if inflation is to be brought back within its official target range of between 2 and 3 percent. Analysts suggest this will almost certainly mean a further increase when the bank's governing council next meets at the beginning of June, possibly by as much as 0.5 percent.

The rate hike has been applauded by Canada's major banks and big business think-tanks. However, there are growing concerns in these circles over the overall state of the economy, with many economic commentators voicing fears the Bank of Canada's efforts to curtail inflation will either push the economy into recession, leading to a wave of bankruptcies among high-leveraged businesses, or result in stagflation, with prices continuing to rise rapidly even as growth stalls.

Working people, who have already borne the brunt of the pandemic, meanwhile must contend with the fastest rise in prices in 30 years.

According to Statistics Canada, the annual inflation rate reached 5.1 and 5.7 percent, respectively, in January and February, the first time it has exceeded five percent since 1991. A quick look at the numbers for February reveal Canadian motorists paid 32.3 percent more at the pump, while prices for food rose by 7.4 percent and housing by 6.6 percent year over year, their fastest pace since August 1983.

A major factor driving inflation is the huge quantities of cash pumped into the financial markets by governments in Canada and around the world at the beginning of the COVID-19 pandemic, so as to protect the investments of the rich and super-rich. The disruption of supply chains, including for basic necessities and key commodities, has also pushed prices higher. These developments had already fueled a surge in inflation prior to the outbreak of the US-NATO proxy war with Russia over Ukraine, confounding predictions by some economists that inflation would be short-lived as pandemic restrictions were lifted and monetary policy tightened. The economic war the imperialist powers are waging against Russia by sanctioning its exports and seizing its central bank-holdings have exacerbated the inflation spiral. Workers around the world are paying more for gas, food, energy, and other basic necessities, causing their real incomes to stagnate or, more commonly, fall.

A report released this week from the Canadian Center for Policy Alternatives (CCPA) found that two-thirds of Canadian workers had experienced a real-terms pay cut during the two years up to the end of February 2022. Annual wage growth during this period amounted to 2.7 percent, compared to average yearly inflation of 3.4 percent. Particularly sharp wage reductions were recorded in the education and health care sectors, where workers have been subject to various "wage restraint" programs, including under Ontario's Bill 124.

"We're just not seeing wage gains anywhere near the rate of inflation," remarked the CCPA's David Macdonald. "It may be that workers are yet to catch up to the fact that inflation is high, and that they should start asking for higher wage gains on a year-to-year basis."

This complacent remark only goes to show that whilst institutes like the CCPA that are aligned with the trade unions and New Democratic Party can provide useful statistics and information documenting the social crisis, their political conclusions are utterly bankrupt. Privileged sections of the middle class like Macdonald and the well-heeled union bureaucrats may treat inflation as an afterthought that one can ignore or pay attention to as one pleases. But workers are confronted with it on a daily basis as they face the brutal realities of putting food on the table, while the price of other essentials, from heating and gasoline to rents, are rising sharply.

A series of militant struggles over the past year by workers across all sectors of the economy, from miners to New Brunswick public sector workers, grocery store employees and rail workers, demonstrate that workers are more than ready to fight for wage increases and to claw-back concessions the unions granted over the past four decades. The problem is that every struggle by workers is sabotaged and sold out by the unions, resulting in contracts that impose real-terms pay cuts.

Energy and commodity prices—including wheat and other grains—are surging. A core commodity index compiled by Thomson Reuters has risen more on a three-month basis than in any period since 1973. Global food prices rose 9 percent in 2020 and 11 percent in 2021, because of frantic buying during the pandemic, rising transport and fertilizer costs, and a number of poor harvests connected to the erratic weather caused by climate change. Stuart Smyth, an agriculture professor at the University of Saskatchewan, stated that if the farmland in Ukraine isn't seeded this spring and Russian farmers can't get their crops to market, a global wheat shortage could result, triggering a further price spiral.

According to a survey by the Angus Reid Institute conducted before Russia's invasion of Ukraine, seven in 10 Canadians reported being stressed about their finances and over half of Canadians said they couldn't keep up with the cost of living.

"Canadians' household budgets are becoming squeezed from all angles as the price of goods rises," the report from Angus Reid noted. "The costs of food, gasoline, and energy in particular are adding to household bills."

The survey went on to state that two in five (39 percent) Canadians report they are worse off now than they were last year, which is the highest in 13 years of tracking. Twenty-nine percent of Canadians expect their financial condition to worsen over the next 12 months.

Underscoring the devastating impact the ruling elite's response to the pandemic has had on wide swathes of the population, a staggering three in five (57 percent) Canadians said that they were finding it difficult to put food on the table, which was up substantially from the 36 percent recorded in 2019.

Food Banks Canada's HungerCount 2021 report shows that visits to food banks climbed 20 per cent nationally. A quarter of all locations experienced a 50 percent increase in demand.

Canada's Food Price Report for 2022 forecasts the cost of food rising between 5 to 7 percent this year, resulting in a family of four spending approximately $960 more on food than they did in 2021. Kendra Sozinho, a manager at the Fiesta Farms grocery store in Toronto, told CBC, "We're seeing almost every single supplier increasing their pricing which then increases our pricing. I've been here for 20 years, and I've never seen a jump like this."

In another alarming report, the Farm Product Price Index (FPPI), which measures the change in prices Canadian farmers are receiving for their products, rose 25.9 percent in December 2021. The index thus reached its highest level in 40 years.

In partnership with insight start-up app Caddle, Dalhousie University's Agro-Food Analytics Lab recently surveyed 10,000 Canadians to determine how consumers are responding to rising grocery bills. Nearly half of Canadians (49 percent) said they have reduced their purchases of meat products over the past six months due to higher prices. In Alberta, Canada's biggest beef-supplier, a majority of consumers (57 percent) acknowledged cutting back on meat since the start of this year.

The survey found 42 percent of respondents were reading their weekly grocery store flyer more often and nearly as many (40 percent) said they were purchasing discounted products with expiry/best before dates within a few days of purchase. One in four Canadians (26.9 percent) said they are buying products with an "enjoy tonight" label more often this year than they did in 2020.

The study also identified the increased use of a strategy known as "shrinkflation," whereby food producers sell products in packages with less items, reduced weight or smaller volume without reducing the price. Almost three quarters of respondents (73.5 percent) said they were aware of certain food products that have shrunk, despite prices either remaining the same or increasing.

In terms of the factors driving the trend of rising food prices, the study cites "unfavorable weather patterns in the northern hemisphere and logistical challenges due to the global pandemic." This study was conducted late last year and does not, therefore, record the disastrous impact of the Russia-Ukraine war and the sweeping sanctions imposed by the Western powers. They will mean further misery for the growing numbers of working people scrambling to put food on the table.