

# INFLATION: HOW HAS PURCHASING POWER CHANGED?

The year was 1987: Brian Mulroney was prime minister, the new “loonie” was starting to line our pockets, “La Bamba” was the top 100 single in Canada and Gretzky and Lemieux would lead us to a win against the Soviet Union in the Canada Cup hockey finals. Back then, a Big Mac hamburger would put you back around \$2.

Fast forward to today and that same Big Mac costs over three times the price at almost \$7, an increase of around 3.6 percent annually in just under 35 years. During that time, average family income has only risen by 91.8 percent\* and according to the Bank of Canada, the Consumer Price Index (CPI), its measure of inflation, has increased by 107 percent, which represents a year-over-year increase of just 2.2 percent.

Today, one of the most pressing questions in financial circles is whether inflation will become a problem, or if current inflationary pressures are temporary in nature as the central banks would like us to believe. If we were to consider the increasing price of commodities, which is feeding into consumer prices, as well as rising food prices, many would argue that the CPI is not very telling. Those who believe inflation may become a greater force cite a variety of factors that signal a potential shift: significant government stimulus, aging demographics in low-cost manufacturing geographies and empowered labour that puts upward pressure on wages and prices. Others suggest that inflation won't be able to maintain its recent pace after struggling to climb for many years, largely attributing it to pandemic-depressed prices.

Regardless of the path forward, how has purchasing power really

changed? The chart shows the prices for select items back in 1987 and today. While prices for many things have gone up, technological amenities have become more affordable: TVs are not only larger and thinner, but cheaper! Regardless, the good news is that since 1987, investors have seen the S&P/TSX Composite Index gain over 430 percent, an annualized rate of around 5 percent (not including dividends reinvested). If history is any indicator, the equity markets continue to be a great way to grow funds for the future.

\*Average family income is slightly higher when adjusted for inflation.

## Changes in the Prices of Select Items: 1987 & 2021<sup>2</sup>

	1987	2021	Change
Cdn. Family Income (Avg.) <sup>3</sup>	\$37,118	\$71,200 (2019)	+91.8%
Cdn. House (Avg.) <sup>4</sup>	\$129,702	\$716,000	+452.0%
Flat Screen Television <sup>5</sup>	\$1,599 (32")	\$750 (55")	-53.1%
Top Apple Computer <sup>6</sup>	\$9,150	\$7,400	-19.1%
Microwave <sup>5</sup>	\$580 (680W)	\$140 (1100W)	-75.9%
Bottle of Dom Perignon <sup>7</sup>	\$85.25	\$267.95	+214.3%
Big Mac Hamburger <sup>8</sup>	\$2.05	\$6.77	+230.2%
University Tuition <sup>3</sup>	\$1,137	\$6,580	+478.7%
Consumer Price Index <sup>9</sup>	67.5	139.6	+106.8%
S&P/TSX Composite Index <sup>10</sup>	3,729.30	20,035.30	+437.2%

1. CANSIM Table 027-0015; 2. 1988 data: Report on Business Magazine, April 2012, pg. 13; 3. Statistics Canada T-1110019101; Undergrad tuition <https://www150.statcan.gc.ca/n1/daily-quotidien/200921/dq200921b-eng.htm>; 4. CREA; 5. Sony HD TV at bestbuy.ca; 6. MacPro on apple.ca; 7. LCBO; 8. economist.com; 9. <https://www.bankofcanada.ca/rates/related/inflation-calculator/> for March 1987 and 2021; 10. Close on June 7.