

INFLATION & INTEREST RATES



We are all feeling the pinch, (more like gouge), of inflation these days with the highest recorded rates, in some cases, since 1991.(1)

What feels like having salt added to the wound, governments are increasing interests rates. We are already paying more for our groceries and gasoline, now our mortgage and other lending rates are going up too? {{big sigh}}

Let's look at it from this perspective: When balancing the household budget, as long as income is flowing it is reasonably doable, in fact you might treat yourself to a fancier car; borrowing the extra cash to do so. Or maybe take out a loan for that trip you always wanted, because you can now afford the payments. But if something messes up that income, that precious balance gets thrown out of whack!

Same with our economy. We have been, and are, experiencing so much chaos globally, nationally, and locally, that it's no surprise our economy is out of whack.

When interests rates were as low as they were it was a perfect environment for people to spend and borrow money.

However, many events over the last couple of years have thrown our economy out of balance... lockdowns, supply shortages, employment shortages, sanctions due to war, all of these things have nurtured inflation by increasing demand on products and services and decreasing availability.

So why the interest hikes? In the past the government has used increases in interest to reduce consumer spending and borrowing (2). Not eliminate it. The end game is to rebalance, not overcompensate. If rates go too high, it could lead to unemployment and the economy slowing down too much and that is just as undesirable as out of control inflation. Keeping in mind this isn't an overnight fix, it takes time to have an impact. And unfortunately reducing inflation doesn't reduce costs, it merely slows the increase.

The trick is to find the balance, so that we can continue to move forward. Saving and spending appropriately.

Questions? Do you have something you'd like simplified and put into perspective? Contact our office today! Come and experience the Lewkowitz difference!

By Shari Hall

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(2) <https://www.thecanadianencyclopedia.ca/en/article/interest>