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## Today's Local Business

### A rising tide

#### Price jumps may hit everyone, but they often sink those on low income

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An inflation rate of about two per cent may not sound like much, but to Marlene Williams, an unemployed social work student, it has an air of nonsense to it.

"That really only applies to middle-class people. It doesn't really apply to the poor man," says the volunteer with Winnipeg Harvest. For Williams, an occasional user of the food bank's services, even a small increase in consumer prices has a profound effect on her spending.

"Food is obviously a big thing, because we all need to eat. It seems everything goes up except income."

In fact, many Canadians -- not just those on those on low incomes -- are changing their spending habits largely due to increases in gas and food prices.

A recent Environics survey, sponsored by Investors Group, shows that more than half of those surveyed are cutting back on vehicle usage because of gasoline price increases. It's also bad news for the restaurants with 87 per cent of those surveyed eating more frequently at home instead of going out for a meal.

"Even in light of these pricing pressures and the shrinking wallet, there's still a significant emphasis on saving," Myron Knodel, a tax and real estate specialist with Investors Group, says about the poll's other findings.

"Most people said that as a result of climbing prices, they won't be able to save as much as they have in the past, yet they did not want to abandon their savings plan."

The survey also found many people have an exaggerated view of price increases -- which are based on soaring gasoline costs -- even though prices in other areas have gone down. StatsCan reports upward price pressure overall was relieved in the last year by drops in the cost of electronics, vehicle prices, fresh vegetables and women's clothing.

So for the average Canadian, price increases weren't all that bad. They can absorb higher costs in one area and save in another. For food bank users, it's another story.

When prices rise, people on low incomes have to absorb that somewhere, and more often than not it comes from their food budget, Winnipeg Harvest executive coordinator David Northcott says.

"In order to survive, you take your flexible budget, which is your food budget, and take away from that to help buy these other things," he says. "It's been happening for years, but this is adding to the stress of that. And there's a worry that there is more to come yet."

Every bit of money people surviving on low income receive they spend. There are no savings for education or retirement. There are no credit cards for emergencies.

"When you're at the bottom end, it really doesn't matter how much you budget. When you can't control the revenue side, it's really hard to control your expenses," he says. "It's a classic rock and a hard place."

It makes saving for rainy days next to impossible.

"What is that? I don't know the meaning of that. It's out of my vocabulary for now," says Williams, who is attending university as part of the province's vocational rehabilitation program -- available to Manitobans with disabilities.

SEED Winnipeg, a non-profit anti-poverty agency, has been working for almost a decade to address the problem, developing programs for low-income Winnipeggers that will help them build savings.

"It goes from fairly grand to fairly basic," asset building program manager Andrew Douglas says. "We're able to help people by providing matched savings programs."

For every dollar a participant saves, SEED adds another three dollars.

"It was basically coming from the idea that lots of people in society have access to assets and incentive to save," he says. "If you're getting an RSP, there are all of these tax incentives that encourage you to save."

SEED runs two programs, the Saving Circle and Individual Development Account (IDA), which are geared towards helping participants save enough money to purchase items otherwise out of reach.

The Savings Circle is aimed at saving for items under \$1,000 -- like a baby crib or a computer, while the IDA is for larger expenses, like a down payment on a home or savings for post-secondary education.

It only accepts 90 participants a year, turning away many more applicants. But SEED has worked to create a model that can be adopted by other organizations. So far, six other local non-profit groups have implemented similar strategies, including Fort Garry Women's Resource Centre and Villa Rosa. Another three organizations will start up programs later this year.

But beyond saving for a purchase, participants also become more confident with managing their finances.

"When people are done, and we talk to them a couple of years later, they still love what they've purchased and are grateful for it, but again and again people are talking about the skills they got through the money management training," he says.

Lessons about budgeting, financial record-keeping and building credit are included to have long-lasting impacts on participants. So far, 70 per cent of those who enrol reach their goal. But Douglas says there's something even more valuable he hopes they take away from the experience.

"If there's one thing people get out of it -- and this could apply to people outside the program as well -- it's a good sense of the difference between wants and needs," he says. "It's being able to put a bit of a blinder up against the commercialism and the advertising telling us that we need to buy more."

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Fact box:

Understanding prices and inflation

Inflation and the Consumer Price Index (CPI):

What is the CPI? It measures the price of consumer goods the average person buys. It's based on a fixed basket of about 600 commodities like shelter, food, entertainment, fuel and transportation. Each commodity is given a different weight according to how much an average consumer spends on it. Housing and food, for instance, make up more of a percentage than electronics. Prices are measured against a base year, 1992. At that time, a basket of the goods added up to \$100. The index for May 2008 was at 114.6. This means it cost \$14.60 more to buy the basket than in 1992.

What is inflation? It's the percentage increase in the CPI from one year to the next. The CPI increased 2.2 per cent in 2007. In other words, the rate of inflation from the end of 2006 to the end of 2007 was 2.2 per cent. The Bank of Canada states it aims to keep inflation between 1 and 3 per cent a year. Higher inflation means prices become unaffordable and economic activity slows. Historically, some nations have experienced hyper-inflation -- 100 per cent in more than three years -- because of war, economic depressions and political strife. Bad monetary policy also plays a role. Governments that are poorly managed and print more money to keep up with rising prices exasperate the situation. In the 1920s, Germany's inflation was so high its central bank had to issue a \$100 trillion bank note.

Why do we need to measure CPI and inflation?

The government uses the index to determine increases to social security -- Canada Pension Plan and Old Age Security. The Bank of Canada uses it to determine when to raise interest rates. It looks the core CPI, which excludes fresh fruit and vegetables, gasoline, fuel oil, natural gas, mortgage interest, intercity transportation and tobacco. Their prices can change so much, they're considered too volatile for an accurate measure of pricing in Canada. Generally, the Bank increases interest rates when the economy is doing well -- too well -- and demand is out-pacing supply, which drives up prices. Higher interest rates make it more costly to borrow and expand business, easing demand for prices and cutting inflation. In bad times, the Bank lowers the interest rates to encourage borrowing and business growth. Financial institutions usually base their interest rates for loans on what the Bank of Canada does. If it increases the interest rate, they often follow suit.

### CPI and inflation in 2007

Alberta had the highest jump in prices in 2007 at five per cent, compared with Manitoba at two per cent. Housing costs accounted for much of the growth in both provinces. It rose by more than 15 per cent in Alberta -- again tops in Canada -- and more than five per cent in Manitoba.

Food and shelter make up nearly 44 per cent of CPI, but accounted for 62 per cent of the increases in 2007. Food costs jumped by 2.7 per cent -- the second-highest in 16 years. While grain, juices, meat and other products went up, fresh fruit and veggies fell. StatsCan reports the decline was likely due to our rising dollar.

Gasoline prices rose 4.5 per cent. They rose 5.4 per cent in 2006.

How does Canada measure up to other nations?

Canada is among the leaders when it comes to low inflation in 2007. Japan was the lowest at 0.1 per cent. Russian, India and China were among the highest -- due to their rapidly expanding economies -- at five per cent or more. Zimbabwe has the world's highest rate at 164,900 per cent in February, and some predict it now could be as high as a million per cent.

### Poverty in Canada

If you're looking for a poverty line, don't. Canada doesn't really have one. What is used is a low income cut-off, measured by StatsCan. Canadian families spending more than 20 per cent more of their income than the average Canadian family does on food, shelter and clothing are considered to be below the low income cut-off. In 2006, seven per cent of Canadian families were below this mark, including 760,000 children. Forty per cent of those families with children were headed by a lone parent, most often women.

### SEED and Winnipeg Harvest

Winnipeg Harvest is the city's food bank. Founded in 1984, it helped more than 40,000 people in 2007. Almost 15 per cent of users were employed. To donate, drop off items at 1085 Winnipeg Ave near McPhillips St, or call 982-3676 for pick-up if items cannot be delivered.

SEED Winnipeg is a non-profit group offering economic development in the inner city. It provides savings and small business start-up programs for people on low incomes. Its asset building programs, Saving Circle and Individual Development Account, help families on incomes from about \$12,000 (individual) to \$40,000 (family of four) save for larger purchases or develop savings for education or a home. The provincial government, corporate sponsors -- like Assiniboine Credit Union and Investors Group -- and anonymous individuals provide funding for the programs. SEED also runs the Build-a-Business Program to train would-be entrepreneurs. Call 927-9935 for more information.

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