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Is there a correlation between energy and inflation?

## Speaker Participants

### Frances Donald

*Frances Donald, Global Chief Economist and Strategist, Manulife Investment Management*

## Presentation

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### Frances Donald Global Chief Economist and Strategist, Manulife Investment Management

There are a lot of things that could go better if we relied on what economists would call fiscal policy or regulation changes. And one of the points, and I'm glad that you're emphasizing it for me, is we need to rely more on those levers than we have on central banks, historically.

The problem with energy is that even our energy prices in Canada are fundamentally determined by global supply and demand, so we don't have the ability to substantially — we can via things like some taxes, for example, but the main big momentum between energy prices in Canada comes from decisions that Crown Princes in Saudi Arabia make, the major producers of oil in Africa and Middle East make. Those tend to be bigger market-movers for things, even like Western Canada Select, which is our Canadian oil that comes through.

So, one of the things that I have spoken about to any policymaker that will talk to me is, let's be very realistic about the things we can control in Canada. There are things like housing supply is something that we can control. We don't have the ability to control major energy price moves, but we could be addressing the pain that higher energy prices cause on everyday consumers.

So, the first step is for us to say what is being globally determined and what is being domestically determined. And that's such a simple step, but we haven't gotten there yet, and I think we've just been overly relying on interest rates to solve these problems. Whereas, as you point out, interest rates are not going to solve this problem and there are other areas that we could be addressing. In the meantime, it's probably not going to change in the next one to two years, and that's why we get nervous about the pressure on the economy from this type of stuff and why we get nervous about returning to a sub 2 percent world.

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