Business Matters

October 2022

VOLUME 36 | ISSUE 5

We would like to inform you that the Business Matters Newsletter will be discontinued as of October 2022. This will be the final issue of the Business Matters Newsletter.

FINANCIAL MANAGEMENT

An economist explains: What to know about a recession

David-Alexandre Brassard, CPA Canada's chief economist, breaks down the definition of a recession and how it may affect the Canadian economy.

A recession is often talked about, but not always understood. "You can have a technical recession and barely feel anything," says David-Alexandre Brassard, chief economist, CPA Canada. "You feel a lot more with high inflation."

What is recession?

A recession is defined as two financial quarters of decline in economic activity.

However, while many are worried about a possible recession, unemployment is not rising, explains Brassard. "Growth is slowing down and could go into recession territory in 2023, but we are also experiencing a record low unemployment rate, which is around 4.9 per cent."

He notes that the current tight labour market–when job openings are growing faster than the pool of applicants–precedes the pandemic and is the result mainly of an aging population. "We have reached an inflexion point recently with more open positions than applicants, but the tightening of the labour market has been building up for a few years."

The recession that occurred at the beginning of the pandemic was a true unforeseen economic shock. Luckily it was short-lived, in large part due to the influx of government funding. "This time around, economic slowdown and potential recession could be a downward adjustment rather than a major economic shock," says Brassard. "That means higher interest rates driving people to spend less which in turn would lead to businesses making less and, ultimately, less economic output."

Interest rate hikes have already slowed economic growth, which Brassard says will continue until the end of the year. "One upside is that we saw a large **surge of savings** during the pandemic, which is acting as a buffer and allowing consumers to still spend money on their homes and take vacations during the summer. With the level of household debt being particularly high, however, things should adjust more quickly on the consumer side towards October and November and into the next winter."

A particular issue in the current context is that consumers may have the willingness to spend, but businesses are not in a position to supply them. "This is a different and persistent scenario from the early shocks of the pandemic, in which 40 per cent of the economy was shut down for six weeks," says Brassard.

Canada's economic performance

Brassard notes that Canada is doing relatively well on the economic front and is hopeful that this will continue. "We rebounded very well from the pandemic because of the money the government invested in the process. Hopefully, that means Canada's recession will be smaller than other G7 countries.

For Brassard, the issue facing the Canadian economy is long-term growth. "We have challenges in terms of innovation, productivity and an aging population that signal a long-term struggle. However, Canada has a higher percentage of people working than the U.S., as our immigration policies put us in a better position to grow the labour market."

Canada also boasts a strong and stable banking environment that has guardrails in place for mortgages, creating a more stable housing market, he notes. Rising interest rates and inflation are also driving a correction in housing prices. "It has already started to cool off our overheated market, which will move the market into the buyer's favour. However, the impact may be different depending on the city," says Brassard.

Ways to survive a recession

One of the major challenges facing consumers since February 2020 is that on average, inflation has been growing more than wages.

"At the beginning of the pandemic, inflation was stalling meanwhile wages for maintained jobs were growing" says Brassard. "Right now, purchasing power of the average worker is behind where it was in 2019."

For those looking to prepare themselves financially, the rules for managing high inflation are also true for a potential recession. Brassard offers the following suggestions:

- postpone major spending where possible
- avoid debt and save where you can. "High interest rates add a layer that makes debt more expensive," says Brassard
- lock in mortgages and loans to protect yourself from future interest rate hikes
- revisit your investment portfolio with your adviser and adjust your risk profile where needed "The investment vehicles you use will be based on your risk tolerance," says Brassard "Depending on your profile, you may want to move to less risky, fixed-income investments."

Canada's future prospects

The recessions in the 1980s and 1990s were fuelled by a combination of slow economic growth, high interest rates (over 10 per cent), and high inflation and unemployment (reaching over eight per cent in the 1980s and 90s).

A possible recession in 2023 would likely be less devastating than previous ones, says Brassard. "During high inflation of the 1970s and 80s especially, interest rates were very high. We still have room to use the interest rate to bring inflation back down. And, with the level of household debt we are seeing today, the government should not have to raise rates to 10 per cent to get consumer spending down."

Struggling to save? These pro tips can set you on the right track

Even if you are finding it difficult to get your spending under control, there are ways to build good habits and start tucking away some funds for the future.

As we know, the pandemic has caused financial hardship for many people. According to one poll, for example, two thirds of respondents were concerned they would not recover financially from the pandemic.

But it's precisely in difficult periods that it becomes even more important to be aware of what we're spending and to set away funds for the future.

If you are among those Canadians who are having trouble saving–either because of ingrained habits or circumstances–there are still ways to get your spending on track.

Here's how to sow the seeds for good savings habits that can set you on a solid financial footing for what we hope will soon be a pandemic-free future.

1. Track your spending

Most experts agree that the best way to get started on any savings plan is to track your monthly spending. As CPA David Trahair, a financial trainer and author of several books, including ***The Procrastinator's Guide to Retirement***, points out, "Every person's personal financial situation is as individual as their fingerprints–and your fingerprint is your historical spending."

While tracking your spending is important–and many banks make the process easy by giving you free access to proprietary and secure budgeting and spending tools–many people just don't do it. "Unfortunately, these are often people who spend more than they make," says Trahair.

2. Pay off your credit cards

Even if you don't track your expenses, you should know if you can pay off your credit cards every month. If you cannot pay the balance, you are a revolver–i.e., you carry a balance, paying high interest along the way.

According to Trahair, this is financial folly. "If you owe $20,000 to a bank and it is charging you 20 per cent interest per year, you are adding $4,000 in non-deductible interest to your debt each year." If you are a revolver, Trahair says it does not make sense to invest in a Tax-Free Savings Account (TFSA) where you might make two per cent interest. "Mathematically, it makes far more sense to pay off your credit card debt," he says.

3. Automate your saving

Probably the easiest way to save when you're not a saver is to regularly pay yourself first by having a certain amount transferred from each paycheque to a Registered Retirement Savings Plan (RRSP) or a TFSA at a brokerage or other financial institution, says Trahair. "That way, you won't even miss the money."

CPA Stan Tepner, a portfolio manager at CIBC Wood Gundy, adds that if the money is transferred into a personally held RRSP, you can apply to the CRA and receive authorization for your employer to reduce your tax deductions at source. "That way, you will end up with a bigger net paycheque, rather than having to wait for a tax refund later."

Tepner adds that some workplaces allow you to have a portion of your salary automatically invested in a group RRSP, group TFSA or share purchase plan. “The group RRSP programs automatically reduce taxes withheld at source, without an application to the CRA,” he says. “And the other two programs encourage automatic savings from after-tax earnings.”

4. Consider your time horizon

Knowing what you are ultimately saving for–and whether your goal is 50 years or 10 years away–makes a huge difference in the savings strategies you should adopt.

“If you’re building a nest egg for retirement in 50 years, you can afford the risk of investing more heavily in the stock market,” says Trahair. “But, if you are saving for a down payment on a house, it’s better to opt for GICs or similar safe products. You might make only one or two per cent, but you won’t be running the risk of losing 50 per cent or even more of your money right before you need it.”

5. Do a financial cleanse

Just as a detox cleanse aims to cut out the harmful items in your diet, a financial cleanse eliminates “toxic” spending–spending that one article calls “emotionally charged, wasteful or just mindless.”

An important part of the cleanse involves going on a spending fast–i.e., putting a stop to any purchases that aren’t truly needed. “For example, you might have a weakness for shoes or athletic gear,” says Tepner. “With fasting, you just try to stop spending on that item for a certain time to see if you can live without it.”

6. Find creative ways to cut costs

In addition to cutting some expenses completely, you can simply pay less for many items, says Tepner. “There are plenty of examples–making your own lunch to using coupons to cancelling memberships you don’t use,” he says. You can also use Flipp, an app that houses flyers and catalogues from many retailers and allows people to easily search and price match.

There are ways to save on seasonal spending also. As CPA Bill Stephenson, a sole practitioner and volunteer with CPA Canada’s financial literacy program, points out in a blog, you can start a gift exchange with family and friends and put a dollar limit on the gift. In some cases, too, you can even go gift-free. For example, when possible, you can encourage loved ones to volunteer at a local food bank or take the kids skating at a public park. “That good feeling of being with your family and friends is often the best gift of all,” says Stephenson.

7. Balance repayment with saving

While Trahair is a big proponent of paying down debt, he recognizes that if your goal is retirement, you also need to consider the savings side. “If you just focus on reducing your mortgage to zero by retirement, you might run into cash flow difficulties if you haven’t saved enough.”

The solution, as he sees it, is to keep everything in balance. “Ideally, you should pay off the mortgage before retirement, but you should also make sure to you have saved enough so that you can afford to pay your living costs.”

8. Be your own best savings friend

In the end, building healthy saving habits is all about awareness: you have to know what you are spending–and why–before you can uncover opportunities to save. But once you kickstart the process, you just might find you enjoy it.

As Trahair puts it, “You’ll reap the rewards in the form of lower credit card bills and higher savings balances. Better still, you’ll lose far less sleep worrying about your future finances.”

The time to budget and negotiate loans is now

Interest rates continue to rise, affecting loans and debt. Experts explain what this means and how you can try to limit its impact.

Canada is facing its **largest rise** in inflation since January 1983. To help combat this, the Bank of Canada has **increased the country's interest rate four times since March**. Mid-July's benchmark increase rate was raised a full percentage point to **2.5 per cent**, the biggest one-time increase in more than 20 years.

With inflation now at **8.1 per cent**, Canadians are **increasing personal debt** to supplement costs, with credit card spending rising 17.5 per cent in the first quarter of 2022.

"We're seeing people spending on services that have been restricted during COVID," says David-Alexandre Brassard, chief economist at CPA Canada. "People are travelling, they're going to restaurants and we're not seeing consumer spending trending down just yet."

The impact of rising rates

The latest percentage increase could have a big impact on people's finances, especially when it comes to the type of debt people carry, says FCPA Robert Hunt, licensed insolvency trustee and managing partner at Grant Thornton Limited.

For instance, people with variable debt such as credit cards, lines of credit and variable mortgages have interest rates tied to the Bank of Canada's rates–and these rates are immediately affected. "When the Bank of Canada's rate goes up, then the amount of interest in your payments go up," he says. "When rates go down, the amount of interest in your payments goes down. If you have debt that has a variable rate associated with it, you can expect to see your payments increase."

For those who have fixed rates of debt–such as a five-year mortgage that is locked in–this rise in interest rate will take effect only when it comes time to renew the loan. "The amount of your monthly payments will be based upon the interest rates that you can secure at that time," says Hunt. And, if interest rates have gone up, so will your monthly payments.

How to approach debt

Household debt is expected to rise with experts anticipating mortgage payments may go up by **30 per cent** over the next five years.

When it comes to borrowing–especially for those with fixed rates–Hunt explains that the onus falls on the consumer to negotiate a new agreement with their lender to secure a better rate.

"Some lending institutions will allow you to lock in your new interest rate a little bit in advance of your actual renewal date," he says. "You have to address that question with your lender to find out what options they have."

Consumers must also consider whether to choose fixed or variable lending.

- **Feature: 'Struggling to save? These pro tips can set you on the right track**
- **Feature: 9 smart tips to ensure your finances are on the right path**

“That decision is really about how much risk people are willing to take, since interest rates may actually go back down or even lower than when locking them in,” he says. “Typically, you do pay a bit of a premium for locking your rate in versus floating. But it does buy peace of mind for people to help them know they can afford to service the debt that they’ve got.”

Each decision is personal and must be weighed against individual financial circumstances.

What you can do

Making a budget is the first step. “Really make sure you understand what money you have coming in, where your money’s going out and what you have left over at the end to service all of your debt,” says Hunt. “With some types of debt, like a mortgage, even a small increase in the interest rate can really add up to a big difference in your monthly payment or the amount of interest you pay over the term of the mortgage.”

Spending on luxuries, Brassard says, should be the first thing trimmed from a budget. “With the increased inflation rate, we’re seeing that hotels and restaurants are increasing their prices. Try to cut back on these things this summer,” he says.

- **Resources: Money management worksheets**
- **Podcast: Financial literacy podcast: Mastering money**

For those with large loans, such as student debt or lines of credit, reducing debt by any amount is advised. If you are struggling financially, do the most you can to limit debt in your situation. “At the very minimum, make sure you’re making your minimum payments on your debt,” says Hunt. “You want to reduce your highest cost debt as much as you can first, so that you’re paying the least amount of interest in total.”

Brassard agrees. “If you do need to go into debt, try for debt that is less expensive,” he says. “Credit card debt is the last one we’d suggest because of its high interest rate.”

With inflation on the rise, both experts agree that being financially prepared will help create a better outcome. “How you will be impacted,” Brassard says, “depends on what kind of loans you have.”

This makes it a good opportunity to review your budget and debt levels, and determine what next steps might be needed. Whether that’s reducing your spending or looking for lower interest debt products, it’s important to review all your options.

MANAGEMENT

A catalogue of 2022's latest cons and scams

Crypto scams, real estate renter fraud, fake time share buyers, and more, in this roundup.

"I have been hacked."

New York-based non-fungible token (NFT) collector Todd Kramer posted on social media after 15 NFTs were wiped from his crypto wallet. The NFTs were part of the valuable Ape Yacht Club series and valued at more than US$2.2 million. The NFT market, which saw US$41 billion in sales last year, has become a target for scammers who have carried out a series of high-profile thefts. Earlier this year on the platform OpenSea, the world's largest NFT market, an estimated US$1.7 million was lost in a hack that saw 254 cryptocurrency tokens stolen in a matter of hours. Trading activity on OpenSea dropped by 80 per cent the following month, as concerns increased about the security of the largely unregulated market.

17

Number of reports the Canadian Anti-Fraud Centre (CAFC) received of scams targeting people donating to Ukrainian aid efforts. The CAFC said the frauds primarily came via social media, where groups and individuals on platforms like Facebook and Instagram solicited donations via e-transfer and pocketed the funds.

In addition to the donation scams, the CAFC warns of fraudulent websites claiming to offer low-cost immigration services and guaranteed jobs for Ukrainian refugees. There have even been romance scams trying to capitalize on the war in Ukraine, including one featuring a scammer posing as a Canadian intelligence officer who convinced a woman to send him money to aid the war effort.

"Scammers will try to use any means necessary to convince you that their requests are legitimate," the CAFC said in a statement. "The majority of fraud is not committed by amateurs and they will use technology to their advantage."

8:30 P.M.

The time Quebec residents began receiving text messages on March 22 luring them to click on a link to receive $500 dollars via Interac transfer. This came less than five hours after the province tabled its official 2022 budget, where it was announced that 6.4 million Quebec residents would be eligible for a $500 tax rebate to offset rising inflation. The text messages were made to look like they were sent by the political party, Coalition Avenir Québec, which quickly warned its followers via social media of the fraud in progress and urged them to not click on the link, which could be used to access personal information. It's one of several text-message frauds to be linked to provincial government announcements in Quebec this year.

Timeshare target

With the pandemic slowing international travel, many Canadians who own timeshares have explored the notion of selling. That's resulted in an upswing in fraudsters targeting sellers, prompting the Canadian Anti-Fraud Centre to issue a warning to all Canadians.

Victims are typically contacted by scammers either responding to sale postings or cold-calling timeshare owners offering to purchase their share. Documents that appear authentic are presented and signatures requested–a tactic the CAFC says is meant to provide a false sense of security–before up-front fees and other monies are instructed to be transferred to bank accounts in the United States and Mexico. The CAFC warns sellers to remain vigilant and carry out due diligence to assure properties are traded using accredited agencies.

Crypto-curious

A Calgary investor with no experience in cryptocurrencies reported being scammed out of $2,500 after contacting a crypto trading company she found online. The investor sent the money to the company, who reported profits of $200 within a two-week span. The investor said the company then asked for an additional $10,000 to be transferred. If she didn't, she was allegedly told, then her account would be handed down to a junior staffer, with smaller profit margins to follow. She refused and asked how to withdraw her money. Later that night, after being instructed by the company to carry out a series of transactions to free up her funds, her account balance read zero dollars.

The Better Business Bureau estimates that Canadians lose a median of $600 to unregulated crypto investment frauds like this, with cumulative losses in the millions nationally.

"We knew there was a risk"

Quebec Public Safety Minister Geneviève Guilbault told Radio-Canada that the province opened more than 150 investigations regarding suspected fraudulent vaccine passports and QR scan codes. The Unité permanente anticorruption (UPAC), Quebec's anti-corruption unit, is investigating potential cases involving government employees, while provincial police are looking into civilians alleged to be engaged in buying, selling or manufacturing fake QR codes for vaccine passports. A UPAC spokesperson called the scam a priority case for the office, while, during a press conference, Quebec health minister Christian Dubé said the false passports were not a result of computer error but instead ill-intentioned employees.

"We've given 16 million doses (of vaccine) and hired a lot of people," Dubé said. "We knew there was a risk."

99.99%

The drop in value in ten minutes for a digital crypto token called Squid Game, which took its moniker from the popular South Korean-made Netflix show. In late 2021, Squid Game shot up from one cent per token to more than $2,856 in the span of less than one week–only to come crashing down much faster.

As the token's value first rose, investors began to complain that they weren't able to sell the coin. In an apparent scam known as a "rug pull," the promoters of the cryptocurrency–which was traded on unregulated, decentralized cryptocurrency exchanges that connect buyers directly with sellers–yanked the coin from the exchanges and the liquidity pool disappeared instantly. The purported scammers made off with an estimated US$3.38 million in the process.

"It is one of many schemes by which naïve retail investors are drawn in and exploited by malevolent crypto promoters," Cornell University economist Eswar Prasad said in BBC report.

$30/hour

The wage a 22-year-old Ontario woman was promised when she accepted a supposed data-entry job with Vancouver-based women's clothing chain, Aritzia. She soon found out her new gig was nothing more than a ruse that featured a fake Aritzia website, falsified contracts and even a fraudulent cheque for $3,485 that was mailed to her.

Unsuspecting, she deposited the cheque to her bank and watched as her balance was automatically adjusted. Yet two days later, the fake cheque bounced as the ruse became apparent.

The Canadian Anti-Fraud Centre reported more than 1,400 victims in Canada lost over $8 million in job-related scams in 2021–nearly double the previous year.

"Safeguard machines"

Is what a scammer posing as a Canadian Border Services Agency (CBSA) officer directed a victim to use in order to safely transfer her life savings as part of an elaborate con.

The victim first received a call from a supposed CBSA agent informing the woman that her bank account would be seized due to suspicious activity under her name.

The scammer continued correspondence via email where she was told that in order to protect her assets she would need to transfer $30,000 to a more secure account using "safeguard machines" that police later determined were, in fact, Bitcoin machines.

It wasn't until the victim received a call from somebody posing as an officer named Sgt. Marshall of the Kingston, Ontario police department, who reprimanded her for asking too many questions, that she became suspicious. The caller ID and phone number both matched the real Kingston police offices–a technique called "spoofing"–but the bizarre conversation finally prompted her to contact the real police.

"Red flags"

In August, a couple purchased a town home in Ottawa's Barrhaven neighbourhood and listed the income property to rent through an MLS agent. A few weeks later, the agent contacted the couple to tell them their tenant was complaining about a supposed unexpected rent increase. The problem? The couple had yet to rent out their home. The so-called tenant, it turned out, had replied to a Kijiji listing for the property and negotiated rent prices and other arrangements via a series of text messages with a scammer. "Under normal circumstances, yes, this would have raised some red flags," said the 36-year-old renter, who e-transferred over $4,000 to the perpetrator, presuming the lack of a face-to-face meeting was common protocol during the era of COVID-19. How did the renter access the home? The victims believe the scammer acquired the lock box code by fraudulently posing as a realtor on a website that facilitates realty showings. Ontario police warn prospective renters to look for duplicate listings and exercise vigilance when searching for properties online.

$34,000

Amount an elderly woman in Kelowna, B.C., was conned out of $34,000 due to an elaborate Bitcoin scam. Intrigued by the opportunity in cryptocurrency investment, the woman entered her contact information on a website promoting Bitcoin. The site appeared legitimate but was far from it. What followed was a barrage of phone calls and emails–up to two dozen a day–instructing her how to e-transfer money to a fraudulent account. The scam even featured a banking portal with a bogus two-factor authentication process that showed a fake account balance. What began as a $250 investment quickly "snowballed" until the woman's daughter intervened. The phone numbers have reportedly been deleted and an RCMP investigation is underway.

These stories first appeared on CPA Canada's online news site.

BUSINESS MATTERS is prepared bimonthly by Chartered Professional Accountants of Canada for the clients of its members.

Authors:

An economist explains: What to know about a recession	Denise Deveau
Struggling to save? These pro tips can set you on the right track	Margaret Craig-Bourdin
The time to budget and negotiate loans is now	Michelle Singerman
A catalogue of 2022's latest cons and scams	CPA Canada