August 2026 Market Update

Why is everything so expensive?

- Could our perception of inflation be wrong?
- They don't make them like they used to
- Fighting inflation

Ever since Watergate brought down the Nixon presidency in the early 1970s, there has been a tendency in the U.S. to attach "gate" to every scandal, big or small. Perhaps this trend reached a peak – or a new low – with "Burrito-Gate" a couple of weeks ago. "A burrito shouldn't cost $20!" was the social media comment from a college student that went viral and sparked political and cultural debate, highlighting a severe inflation and affordability crisis. As with most things today, opinions varied. While many agreed the price seemed high, some argued it was likely inflated by delivery fees, while others criticized the poster's decision not to cook at home.

Beneath the noise on how the student chose to spend their money was a valid point: it's not just burritos. Almost everything is much more expensive than it was a few years ago, and the pressure does not seem to be easing. According to an Angus Reid poll conducted in April, 52% of Canadians said reducing the cost of living should be the government's top priority – a figure that would certainly be even higher if not for the tariff dispute with the U.S. Despite these concerns, inflation has fallen sharply to 3.0% in July 2026 from its peak of 8.1% in June 2022. In fact, inflation has remained within the Bank of Canada's (BoC's) target range of 1% to 3% every month since the end of 2023, with one exception. Are things not as bad as they seem?

Could our perception of inflation be wrong?

Inflation is the change in the price of a basket of goods and services over a one-year period. As noted above, prices rose 3% over the past year, meaning you would now need $103 to buy what cost $100 a year ago. However, this measure does not capture the full impact of price increases over several years, particularly those experienced this decade.

For context, the average annual inflation rate from July 2000 to July 2020 was 1.81%[1]. That means what would have cost $100 in 2000 took $143 in 2020. Not bad. The BoC prefers inflation near 2%, and over those 20 years, it averaged below that level.

Unfortunately, the stimulus injected into the economy during the pandemic pushed prices sharply higher. Over the next six years, the average annual inflation rate doubled to 3.63% – so it now takes $123 in 2026 to buy what had cost $100 in 2020. When prices rise gradually, we may barely notice; when they jump quickly, the impact is hard to ignore.

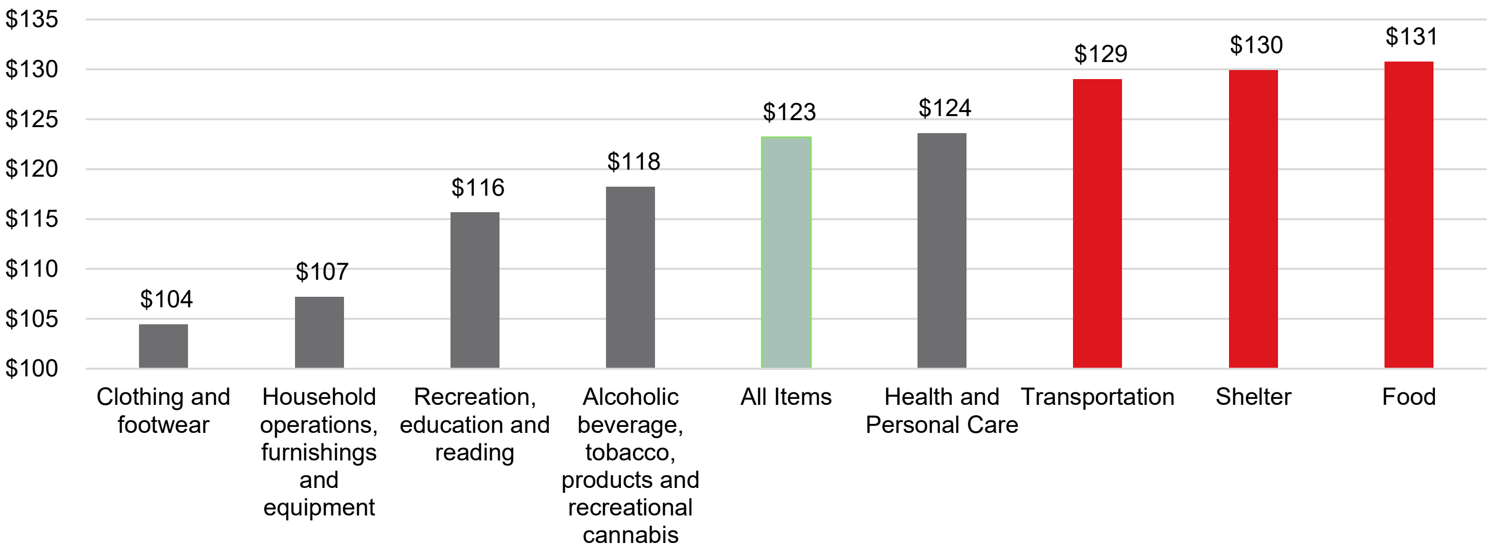
To make matters worse, discretionary items, such as furniture and clothing, have seen modest increases. Necessities, such as food, shelter, and transportation, however, have risen faster than headline inflation, with average annual increases of around 4.5%. A $100 grocery basket in 2020, now costs $131 (Figure 1).

They don't make them like they used to

The CPI basket tracked by Statistics Canada is not perfectly representative of every individual or family, but it is a useful starting point for understanding spending trends.

[1] Bank of Canada

Figure 1: Prices have risen the fastest in the essentials



Source: Statistics Canada. What $100 basket of goods purchased in June 2020 cost in June 2026 by CPI category.

Some costs are not fully, or at all, captured by CPI, which means household expenses may be rising even faster. Three examples come to mind:

• **Shrinkflation.** This refers to selling a smaller package for the same price, which is common among packaged-goods manufacturers. When inflation runs hot, companies often use shrinkflation to protect profit margins without fully alienating customers. From 2021 to 2023, Statistics Canada estimates that 30% of grocery items in its food basket experienced shrinkflation. Although these changes are adjusted for in inflation data, consumers may still find themselves spending more and getting less, depending on the products they buy.

• **Replacement cycle.** Many things are no longer built to last, especially household appliances and other mechanical items. Take washing machines, for example. The data suggests that the inflation-adjusted cost of a washing machine sold in the mid-1980s is roughly similar to one sold today. Yet older models often lasted more than 20 years, while today's models tend to last less than half as long. The price has not meaningfully fallen, but we are effectively buying twice as many. Durability has been replaced by new features, greater efficiency, and more electronics. Repairs have also become more difficult, particularly for vehicles, which further increases costs.

• **The digital economy.** Today's economy is increasingly geared toward consumption. Online shopping makes purchases easier, social media constantly highlights new products and smarter targeted advertising, and almost any type of takeout can be delivered with embedded service costs. Participating in the digital economy also requires smartphones. Instead of one or two home phones that lasted for decades, a family of four may now each have a smartphone, which are typically replaced every two to four years. The phones can easily be more than $1,000 each, before data plans and other charges are even considered.

Fighting inflation

When it comes to household finances, there are really only two levers to pull: spend less or earn more. Neither is easy. Spending less is challenging when the electronic devices in our homes monitor our conversations and online activity to persuade us to spend. Earning more is difficult too. It may require a raise, a new job, a second job, or a side hustle.

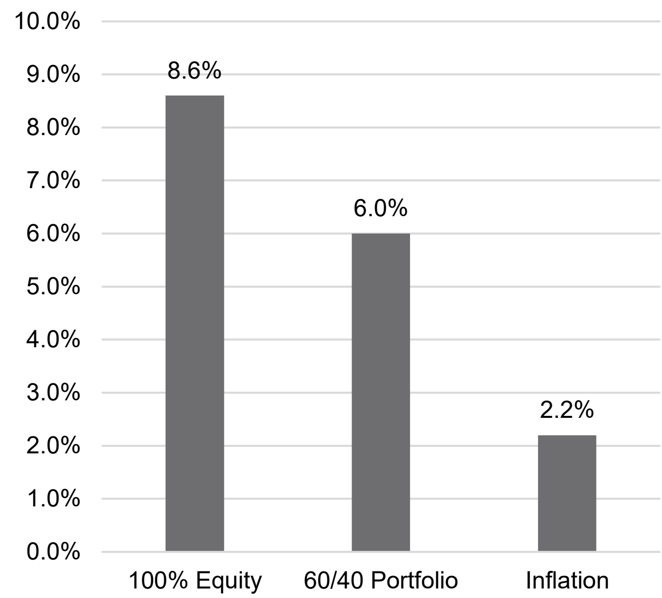
For most people, investing early and consistently remains a tried-and-true way to stay ahead of inflation. Since 2000, the average annual inflation rate has been 2.2%. Over the same period, a classic globally diversified balanced portfolio invested 60% in stocks and 40% in bonds has produced an annual return of 6%. Even after accounting for costs that inflation may not fully capture, this type of portfolio has grown at a rate well above the cost of living (Figure 2).

For those living off their investment portfolios, these returns can help their net worth continue to grow. For those still saving, they can bring retirement options into clearer focus.

As the cost of living continues to rise, saving, investing, and ***staying*** invested are even more important now. Pulling out of the market during a downturn can create a setback that many investors never fully recover from. Wealth Advisors can help clients stay on track, fight inflation, tailor an investment strategy to their individual goals and needs and, importantly, engage the next generation as they navigate these rapidly changing times.

Sources: FactSet, Statistics Canada, Angus Reid, Studyfinds.com, Bank of Canada

Figure 2: Investing Protects Purchasing Power



Source: FactSet. 60/40 portfolio consists of 20% S&P 500, 20% MSCI EAFE, 20% S&P/TSX Composite, 40% iShares Core Canadian Universe Bond Index. 100% Equity consists of 100% S&P/TSX Composite. Inflation from July 2000 to July 2026 BoC

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