

## Inflation or deflation?

One of the big questions at the moment is: will there be inflation or deflation in the post-COVID-19 world? Most of the opinion seems to be on the deflation side due to high levels of unemployment and weak demand, while the supply chain is resilient and will come back in full force, offering a plethora of goods to tempt consumers out of their state of paralysis.

While lower prices may sound like good news, there are dangers in reducing the already low rate of consumer price inflation. A slowdown of inflation towards zero or even into negative territory – deflation – would bring new economic concerns. Consumer spending is the major component of the demand that drives a robust economy. If people think prices are going to fall, they tend to put off non-essential purchases in the hope things will cost less in the months to come.

Although falling prices mean a real income gain for those whose pay has not been affected by the current crisis, for many others, this will be outweighed by the income they have lost from not being employed.

Inflation has slowed even though some products are in short supply due to industrial stoppages and panic buying. Prices will start to rise rapidly if supply cannot keep up with demand. If renewed demand is not satisfied as a result of disruption to global supply chains, inflation may be set to soar. This could be aggravated by other factors, such as if oil prices rebound sharply from current 20-year lows.

Quantitative Easing (“QE”) does not create inflation. It simply swaps new money for less liquid assets – new money for the economy and assets for the government. QE, as one analyst put it, is not gasoline for the economy, it’s oil for the engine – that is why the past years of QE did not create hyperinflation as many expected.

Governments will be hopeful that their fiscal and monetary stimulus packages cause some further increase in prices, as well as averting lower income and industrial capacity. Whatever the downsides of inflation, the prospect of deflation in the current environment of such high debts is likely considerably worse.



## Fiscal Snapshot

### Bank of Canada

	Bank Rate	Bank Prime Lending Rate
June 2020	0.50	2.45
May 2020	0.50	2.45
June 2019	2.00	3.95

### Government of Canada Benchmark Bond Yields

	5-Year	10-Year	Long
June 2020	0.36	0.52	0.99
May 2020	0.39	0.53	1.11
June 2019	1.39	1.46	1.68

### Indicative Commercial Mortgage Spreads\* Over Government of Canada Bond Yields

	Conventional	5-Year	10-Year
June 2020		2.20 - 3.00	2.40 - 3.25
June 2019		1.75 - 2.10	1.85 - 2.35
	Insured	5-Year	10-Year
June 2020		1.00 - 1.65	1.00 - 1.75
June 2019		0.90 - 1.10	0.90 - 1.10

\*Spreads are indicative of high quality real estate in major Canadian markets.

Source(s): Bank of Canada

# Highlighted Transaction

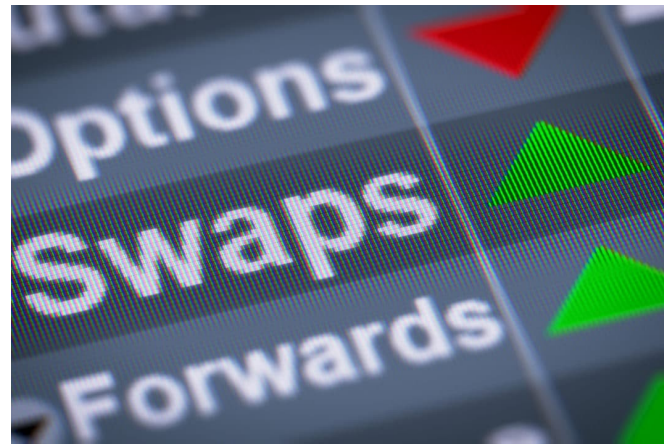
Asset Type	Suburban Office
Location	Major Canadian city
Facility Details	Permanent term financing was arranged for a suburban, single tenant office building for a term of 7 years and an amortization period of 25 years. The structure included limited recourse, an interest only initial term of 2 years and a loan amount of \$18,750,000.

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Please contact our Debt Capital Markets team for more details related to debt financings or real estate transactions.



**Norm Arychuk**, Mortgage Broker\*  
416.673.4006  
norman.arychuk@avisonyoung.com

\*Licence #: M09002260  
Brokerage Licence #10637

**Michael Ho**, Mortgage Broker\*\*  
416.673.4012  
michael.ho@avisonyoung.com

\*\*Licence: # M15000834  
Brokerage Licence #10637

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avisonyoung.ca

Avison Young Commercial Real Estate (Ontario) Inc., Brokerage  
18 York Street, Suite 400  
Mailbox # 4  
Toronto, Ontario, Canada M5J 2T8  
416.955.0000

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