



Commentary

Low Inflation, Not!

The last time 'official inflation' CPI ran rampant in North America was in the 1970s. The inflation rate started the decade in the low single digits and ended the decade in the low teens. The CPI increased due to an increase in commodity prices, rents and wages.

The current CPI is in the low single digits. The sub-components of CPI: commodity prices, healthcare and education are increasing at rates in the low teens. While housing (42% of CPI) and apparel are barely increasing. The real estate collapse in the USA is the main reason CPI has remained low. Though the CPI is low, it certainly 'feels' as though the inflation rate is much higher.

Most people say there is currently no wage inflation. The wage inflation in the 1970s was primarily the result of union demands in the private sector. Today, unions in the private sector are insignificant. However, unions in the public sector are very significant. Public sector union costs have been spiraling out of control mainly in the form of entitlements (pensions & healthcare). However, much of these costs escalations have been hidden via government deficit financing and/or accruing liabilities. Given the recent decline in public sector revenues many of these escalating costs are just starting to be paid by the public.

Below are some of my actual price increases of various public services:

- 1) Water bill + 32% in 4 years
- 2) Sewage bill +40% in 2 years
- 3) Bridge tolls +50% 4 years
- 4) Ferry and bus ticket + 35% 4 years
- 5) State college tuition + 10% 1 year
- 6) Building permits +30% 3 years
- 7) Parking or moving violation tickets +40% 3 years
- 8) Plus, a plethora of new government taxes, fees, and fines.

None of these price increases above are directly in the CPI. But these costs are real and will most likely have to go higher to pay for escalating public sector union entitlements.

The current rhetoric in the media might have you believe government costs are being reduced. However, unions do not just rollover. It took over 10 years to break the backs of the private sector unions in the 1970s. When reading the paper, I still see massive abuses: The City of Oakland approved the pay to a new City Administrator Deanna Santana at a \$273,000 salary. Include in this annual salary is 9.5 weeks of paid vacation: 4 weeks of executive leave, 3 weeks of regular vacation, and 2.5 weeks of sick leave. A city consul member stated that 'this is a reasonable salary'.

Reasonable salary? Remember, that California public employees receive 90% of their salary as their pension, plus full healthcare.

In conclusion, it seems obvious that actual inflation is currently higher than official inflation. Much of the structural increase in inflation has been masked by the housing collapse, cheap Chinese imports, public sector deficit financing, absorption of higher input costs by businesses, or inaccurate accounting. The question is how much longer can these latent cost be hidden under the carpet.

-Derek Webb

Disclaimer: Commissions, trailing commissions, management fees and expenses all may be associated with the Fund. The investment may not be suitable for all investors. Some conditions apply. Investors should carefully review the Fund's Simplified Prospectus, including the risk factors detailed therein under the heading "Risk Factors", prior to investing in the Fund. The indicated rates of return are the historical annualized compounded total returns (periods less than 1 year are un-annualized simple returns) including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. There can be no assurance that the Fund objectives will be met. The Fund is not guaranteed, its value changes frequently and past performance may not be repeated. The opinions expressed in the commentary are those of the author and do not necessarily reflect the views and opinions of the Manager or any distributor of the Manager Funds. The views expressed are of a general nature should not be interpreted as investment advice to you in any way. Please consult a qualified financial advisor before making an investment decision. The portfolio manager/advisor/sub-advisor has a direct interest in the management and performance fees of the Fund, and may, at any given time, have a direct interest in the Fund itself.

Webb Asset Management Canada, Inc.