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Five financial realities that millennials have never seen (but be prepared)

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Economically speaking, millennials are a sheltered generation.

They have been spared the full richness of the financial experience of older Canadians. Since they began coming of age in 2000 or thereabouts, millennials have lived in a world where interest rates remain low, where inflation is tame and where Canada is an example to the world of financial stability. It wasn't always so, as any baby boomer can tell you.

The financial world was different before, and it will be again at some point. Millennials can prepare for this shift by checking out this list of five past financial realities they have never seen in their adult lives.

1. High mortgage rates

The RateSpy.com website has this week featured discounted five-year fixed rate mortgages as low as 2.06 per cent, which is a reminder that the interest rate surprises of the past several years have all been on the down side. Three years ago, the federal finance minister of the day, mindful of growing talk of a housing bubble, lectured the banks about prudent lending after five-year rates fell to 2.99 per cent.

Back in the late 1970s and early 80s, rates were in a rising trend that took the posted five-year fixed rate to 21.75 per cent. Rates drifted down to the 10-per-cent range in the mid-1980s and then headed up to about 14 per cent in 1990. We then moved into a long-term rate decline that continues to this day.

There's zero risk of double-digit mortgage rates any time soon, but it was only eight years ago that we had posted mortgage rates around 7 per cent. Historically speaking, today's low mortgage rates are abnormal.

2. Rewarding interest rates on bonds, term deposits and savings

The flip side of those high mortgage rates was the availability of double-digit returns on safe investments and savings. Data from London Life via RateHub.ca show that the return on a five-year guaranteed investment certificate was a bit more than 15 per cent in 1981, and the yield on 10-year Government of Canada bonds was similar.

The lesson here is that today's low savings returns are as unusual as low mortgage rates. Savers have not always been punished with puny returns.

3. Inflation

The driver of the rate spikes of the early 1980s was an annual inflation rate in the 10- to 12-per-cent range, which compares with a July, 2016, annualized rate of just 1.3 per cent. The Bank of Canada's inflation calculator shows that the average annual inflation rate over the past 100 years was 3 per cent.

We all experience specific costs in our lives that are rising sharply – think of food costs earlier this year, after the dollar plunged. But the overall cost of living is currently rising only at trace levels right now. The long-term perspective shows how unusual this is.

4. A boring – or declining – housing market

In the 1990s, the average national price rose just 1.5 per cent on an annual average basis while inflation averaged 2 per cent. Toronto was notably weak during that decade – the average price moved up just 0.3 per cent per year. Average prices in Toronto fell from $254,197 in 1989 to $195,311 in 1995.

Over the past 30 years, falling interest rates helped generate average annual price gains of 5.9 per cent nationally. Meanwhile, the S&P/TSX composite index was up an annualized 7.9 per cent over the past 30 years (including dividends as well as share price changes).

5. Canada as a global financial weakling

Low oil prices have slowed the Canadian economy lately, but our overall financial stability since the global financial crisis back in 2008 has been exemplary. Our banks withstood shocks that hammered others around the world, and our economy fell into only a brief recession.

What a contrast to the mid 1990s, when The Wall Street Journal called Canada “an honorary member of the Third World” as a result of the government spending its way into persistently large annual budget deficits. The deficit was crushed later in the decade, preparing the way for the country’s comparatively strong recent performance. Canada did run a big deficit after the financial crisis, but it was quickly reined in.

Millennials, this economic history is meant to be educational rather than predictive. If you know what has happened in the past, you’re more prepared for whatever may come in the future.