Is Hyperinflation Coming to Canada?

Description

Recently, a *Goldmoney* article called “Hyperinflation is Here” made a big splash in financial media. The article was picked up by third-party sites and widely circulated online. In it, the author argues that many countries are already in a state of hyperinflation — albeit one masked by the CPI’s selective inclusion of prices. He goes on to say that if you use the “Chapwood Index,” an alternative measure, purchasing power is already declining.

The article applies its thesis to several unnamed “developed countries.” The only specific country it discusses at length is the United States; Canada doesn’t get a mention. However, our government is undoubtedly pursuing monetary and fiscal policy similar to that of the States. So, it’s worth exploring whether hyperinflation could arrive here as a result.

What the Bank of Canada says

According to the Bank of Canada, its mission is to keep inflation “low, stable, and predictable.” A common inflation target is 2%. The Bank of Canada’s article on inflation says that deflation tends to be a sign of excessive unemployment and low demand. So, it aims for positive but “low” inflation.

As measured by the CPI, that seems to be occurring. According to StatCan, the CPI rose only 0.1% year over year in August. That definitely doesn’t look like hyperinflation. But remember that some people take issue with how the CPI is calculated. Certain expenses, like housing, are definitely increasing in price this year. If they are underweighted in the CPI calculations, then you’ll get an artificially low inflation estimate. As for whether they *are* underweighted, that’s beyond the scope of this article. But the author of the *Goldmoney* article seems to think they are.

Some are saying that big inflation could come here

There’s no shortage of experts who think that excessive inflation could come to Canada. Recently, Fraser Institute economist Fred McMahon wrote that Canada’s massive asset purchases would devalue the Canadian dollar. He said that *hyper*inflation was not in the cards, but that excess inflation was a real possibility. That seems like a reasonable conclusion. Generally, true hyperinflation coincides with collapse of political systems (see Weimar Germany and Zimbabwe). There's nothing like that happening in Canada now. But it's possible that inflation could become a problem down the line.

Inflation protection

If you're concerned about inflation, you have many options to protect yourself from its worst effects. One of those is investing in precious metals. Gold tends to hold its value when fiat currencies are losing purchasing power. So, it offers a significant amount of inflation protection.

There are also gold stocks like **Kirkland Lake Gold** (TSX:KL)(NYSE:KL). Like gold, gold stocks offer significant inflation protection. Their earnings are based on gold sales, so when gold increases, they make more money. However, with gold stocks, you don't need to worry about physically storing bullion. That's no small advantage. When you buy physical gold, you have to either store it in a safe somewhere or pay someone to store it for you. With the former, you're vulnerable to theft; with the latter, the storage fees eat into your return.

Gold stocks like KL may also offer better returns than gold. With gold, only commodity price increases can give you a return. With miners, you've also got the possibility of increased production. For example, in the second quarter, Kirkland Lake's revenue soared a whopping 107%. Gold, in the same period, was pretty strong, but nothing compared to KL's revenue gains. With surging production, the company had gold prices *and* production increases boosting its sales. That's a "one-two" punch you can get with gold stocks but not with gold bullion.

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