Should Canadians Worry About Inflation?

Description

In 2021, inflation is becoming a real concern worldwide. Most major nations increased their money supply dramatically in response to the COVID-19 pandemic. Initially, inflation was less than in past years there wasn't a great deal of money circulating. Now, however, prices are on the rise. In February, inflation reached 1.1% in Canada, driven primarily by gasoline. Prior to that, the country was at a sub-1% inflation rate.

Even during the pandemic, food inflation had been a concern. Now, we're seeing other goods starting to rise as well. In this article, I'll explore whether Canadians should be worried about the coming inflation–and what they can do about it.

Inflation fears pick up

In 2021, many economists and money managers are worried about inflation driven by money supply increases and the economic re-opening. In 2020, Canada ran a $380 billion deficit and reduced interest rates dramatically. As a result, the amount of money available "on paper" increased. However, with people out of work due to the pandemic, many types of consumers spending actually declined. As a result, the increase in the money supply didn't immediately drive inflation.

That could change when the economy re-opens. If the economy re-opens swiftly, people will get back to work, and presumably start earning their previous salaries. That means that most Canadians will be earning more than the $2,000 a month the various COVID-19 benefit programs paid. In areas where the minimum wage is $15, you earn $2,400 per month (pre-tax) on full-time minimum wage.

Many of the larger Canadian cities have $15 minimum wages. We'd therefore expect people to have access to more money when they return to work than they did when they were living on the CERB and recovery benefits. That could drive the inflation that never materialized in 2020.

Ways to hedge against inflation

If you're looking to protect your wealth against inflation, you have many options available to you. One of the best is to hold precious metals. While metals like gold have underperformed stocks over the years, they have reliably out-performed money in times of inflation. Now could therefore be a good time to get some gold and silver in your portfolio.

You could also consider gold *stocks* like **Kirkland Lake Gold Ltd** (TSX:KL)(NYSE:KL). Gold stocks make money by mining and selling gold. When gold prices are rising, their shares tend to rise too. So they directly profit from increases in the price of gold. Unlike direct gold holdings, however, gold stocks can increase their profits through higher production or lower costs. Eventually, this can lead to superior returns.

For example, in 2020, Kirkland Lake Gold delivered $787 million in net income, increased its mineral reserves by 3%, and hit a record production level of 369,000 ounces. These kinds of solid operational results can increase the returns of gold stocks beyond what you'd expect from the price of gold itself.

For this reason, they can be considered gold plays that have some value beyond just inflation protection. On the other hand, the risks with gold stocks are greater, so you should proceed with caution if you buy them.

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andrewbutton