Canadians: Don’t Let Inflation Eat Your Spending Power

Description

Inflation in Canada is on the rise.

That’s according to a *StatCan* report that showed the CPI was up 1.1% in February. Driven largely by increases in the price of gasoline, it was the biggest uptick in inflation since the COVID-19 pandemic began.

Initially, COVID-19 resulted in some of the lowest inflation levels on record. With many Canadians out of work, there wasn’t a lot of spending happening. With the gradual re-opening, spending began to increase — especially on travel. Now, prices are going higher.

If you’re watching all this unfold, you might be wondering what you can do to protect your wealth. Every bit of inflation eats away at the value of a dollar a little bit. And bank accounts don’t pay enough interest to compensate for the loss. So, you’re right to be concerned. If you don’t take active steps to protect your wealth, then inflation will diminish it. In this article, I’ll explore some ways you can do that. First, let’s look at *why* investors are worried about inflation in 2021.

Inflation is ticking up

As mentioned previously, inflation increased to 1.1% in February. That’s a big increase over 2020, when it was sub-1%. In 2020, the money supply increased as the Bank of Canada lowered interest rates to combat the financial effects of the pandemic. Normally, you’d expect that to increase inflation. However, the number of people unemployed meant a lot of money wasn’t circulating. Today, the economy is re-opening, and inflation remains low. Therefore, we have more money in the system, as well as more people earning and spending money. We would expect that to cause increased inflation.

Real estate benefits

In Canada so far, real estate has proven to be a remarkably effective inflation hedge. Especially in big cities, real estate has reliably jumped in price year after year. According to the *CREA*, the average Canadian house price increased 18%

in September 2020 — despite millions of people being out of work at the time. If you had a significant portion of your net worth in real estate last year, you would have beaten inflation. The same would have been true in most recent years.

In light of this, real estate definitely looks like a pretty good inflation hedge. There's just one catch: you need to buy real estate in the first place. And because it has risen so much, you'll most likely need to borrow heavily to buy it. In Toronto, the average house now costs $1 million. That's a steep price of admission. The interest costs over the life of the mortgage could easily cost you hundreds of thousands of dollars.

This is why you might want to consider investing in REITs like the **Northwest Healthcare Properties REIT** (TSX:NWH.UN) instead. Like houses, REITs provide inflation protection, as they generally tend to increase in price over time. Since 2010, REITs as a whole have risen 107% in price. That's thanks to the overall strength in real estate in that period as well as the growth in the property portfolios underlying individual REITs. There are also dividends to consider. Northwest Healthcare Properties currently has a 6.17% yield, which means you get $6,170 in annual cash back on a $100,000 position. That's a pretty good return in itself — and you get that without even getting a decent capital gain. It's definitely an investment worth considering if you can't afford to buy a house and get a rental income stream going that way.

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TICKERS GLOBAL

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