Inflation Skyrockets to 3.6%: Should You Be Worried?

Description

The impact and fear of inflation are rarely uniform. Most people have a general “worry” of inflation, and they take steps to neutralize its impact on their savings. The most common method is investing their savings in avenues where the returns are high and consistent enough to outpace inflation.

If you *haven’t* taken these steps, your hard-earned money is at inflation’s mercy and might lose a substantial portion of its purchasing power, given enough time and high inflation rates. And 3.6% is the highest inflation has been in a decade.

Inflation and your savings

Inflation, or the consumer price index, which is the most common metric used to calculate inflation, isn’t a solitary number. It’s a culmination and aggregate of several different segments, and all of them are moving up at a different pace. Shelter, for example, was 4.2%, and it’s the heavyweight of expenses. Transportation is up 7.6%, triggered mostly by high gasoline prices.

The cost of food is going up at a relatively moderate pace (1.5%). This is important to understand, because even though inflation is a useful benchmark, it doesn’t reflect quite accurately in all the different living expenses. And its impact on your savings is different from what it is on your cost of living.

Take shelter, for example. If the cost of housing is outpacing inflation by a significant margin, and you plan on buying a home with your retirement savings, you shouldn’t be content with just outpacing the expected inflation rate and should take the rising cost of housing into account.

Fighting the cause of worry

While 3.6% inflation is an exception, not the norm, it might take some time before inflation drops below 2%. And if you want to plan for the worst, you might consider investing part of your cash reserve in a stock that might offer you growth in double digits, even if you factor in a high rate of inflation like May's 3.6%. One stock that can help you with that is **Calian Group** (TSX:CGY).

Calian offers advanced and complex solutions to a wide variety of industries, including aerospace and defence, healthcare, public safety, and security, etc. Calian has made a number of acquisitions over the year and expanded the range of solutions it offers and industries it serves quite extensively. One advantage that Calian has is that a decent portion of its revenue comes directly from the governments of their client businesses.

Calian is financially sound. It has minimal debt, a strong balance sheet, and its revenues have been growing quite consistently for the last six years. The company also pays dividends, but the yield is modest at best (1.93%). What's a bit better than modest, however, is Calian's 10-year CAGR of 17%. So, even if you take the 3.6% inflation-based "depreciation" into account, you will still have a decent amount of growth left on your hands.

Foolish takeaway

Inflation is one of the primary reasons why it's better to keep your savings in investment assets instead of cash. And if you already invest, most of your inflation-related concerns would be about the cost of living, especially housing. While the housing market in Canada has started to cool off, it might still take years (*if* it's possible in the first place) before middle-class Canadians can afford to buy a home in major cities.

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