



How Much Has Inflation Eroded Your Wealth in 2021?

Description

The rate of annual inflation in the U.S. hit 6.8% recently. That's the highest rate since 1982. In Canada, inflation is running just as hot. The official figure is at 4.4% — the highest level in 18 years.

This is an invisible tax on your wealth and income. If the prices for all your essentials, from rent to groceries, are rising, your actual buying power is declining. So, how much has inflation eroded your wealth in 2021? Here's a closer look.

Wealth erosion

Put simply, a 4.4% inflation rate reduces the value of \$10,000 at the start of the year down to \$9,560. However, that's the headline figure which is based on a basket of goods that the government picks to represent cost of living. In other words, it's an imperfect measure of how expensive your life is really getting.

Focusing on the essential items you buy every day is a better measure. Fuel costs, for instance, are rising far quicker than the headline inflation number. The price of a barrel of crude oil is up 54% year to date. You've experienced that sharp rise at the gas station.

Rent and house prices are also outpacing headline inflation. The average house is worth 38% more this year than the previous year. Average rent, meanwhile, is up 7% from April 2021 and could surge much faster as people head back to cities and move closer to offices in 2022.

Based on real-world expenses, the average Canadian family is less wealthy today than they were in 2020. However, not everyone is losing money in this crisis. Those who *invested* capital instead of *saving* it are outpacing inflation.

Inflation hedges

Asset prices have outpaced inflation. You could have invested \$10,000 in **iShares S&P/TSX 60 Index Fund**

and gained 25.9% year to date. Real estate has performed even better. Residential landlords like **Killam Apartment REIT** have delivered 34.6% in capital gains this year. Add in another 3% in dividend yield on top of that.

Passive income is up, too. Canada's six largest banks have all raised their dividends by [10-20% in the past month](#) as regulatory restrictions were lowered.

These assets have helped investors retain or even expand wealth during this inflationary cycle. If you're worried about the cost of living accelerating in 2022, betting on miners, banks, energy stocks, and real estate investment trusts seems to be the best strategy.

Bottom line

The cost of living in Canada is rising. All your essentials cost more today than they did in 2020. That's an invisible drag on your family's wealth.

To preserve wealth, betting on inflation hedges is a good strategy. Tangible assets like land and houses hold their value much better in these economic cycles. Energy, commodity, and banking stocks also outperform. Adding more exposure to these sectors could help you *stay rich* in 2022. Good luck!

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