



## 3 Reasons Why Inflation Impacts Canadian Stocks

### Description

Inflation has been one of the most popular and most important topics that investors have followed all year and is one of the main reasons why so many Canadian stocks have been selling off in 2022.

And this week, inflation numbers for the month of May in Canada came out. Not only did they show that inflation continues to be at the highest level in 40 years, but this was also the 15th month in a row that inflation had been above the Bank of Canada's target.

A little bit of inflation is actually healthy for the economy. But when inflation is sky high, and especially when it stays high for long periods, it can cause significant problems.

So, there's no question that cooling inflation is one of the number one priorities for the Bank of Canada right now. Because the longer inflation stays elevated, the more it will impact both companies and consumers across Canada.

Therefore, if you're worried about inflation or want to learn how it might impact your investments, here are three of the most significant ways that it impacts Canadian stocks.

### **As inflation rises, companies will see an impact on demand for their goods and services**

Depending on which industry, one of the first impacts that higher inflation can have is an impact on demand. Right now, with inflation at 7.7%, it's almost certainly outpacing the wage growth of most Canadians. Therefore, as Canadian's buying power shrinks, it impacts their ability to spend.

Often, the companies that will see the biggest impact on sales are those in discretionary industries, where investors can easily cut spending.

For example, utilities like **Fortis** or a residential real estate stock likely won't see any impact from inflation on their revenue (although they will in other ways). However, restaurant stocks and discretionary retail companies almost certainly will see a hit to their sales.

And the longer and more significant inflation is, the more impact you can expect on these companies' revenue.

## **Inflation leads to higher costs and lower margins for Canadian stocks**

Another significant impact that inflation will have on almost all Canadian stocks is that it will cause expenses to rise. Whether it's wages, fuel, shipping, etc., all costs rise, especially with all the supply chain issues the economy is facing.

For some companies, rising costs are not as much of a problem. Because depending on the industry, some businesses can pass these price increases on to consumers.

However, for the majority of [Canadian stocks](#) that can't increase their prices without being at further risk of seeing more demand for their products fall, it means their profit margins will contract.

And as these companies earn less money, naturally, the price investors are willing to pay for the Canadian stocks will fall.

## **Higher inflation is causing central banks to increase interest rates rapidly**

The last of the three main reasons why inflation impacts Canadian stocks is that, as we've seen this year, it causes interest rates to rise.

Anytime central banks increase [interest rates](#), it's meant to cool the economy down. However, when interest rates are increased so rapidly, there's a tonne of potential for it to cause a recession.

Not only that, but for companies that have a lot of debt on the balance sheet, it could impact their financials considerably.

So, with sky-high inflation, it's crucial to ensure that the stocks you own are of the highest quality and can weather these periods of economic turmoil.

Central banks are walking a fine line right now. If they increase interest rates too quickly, the economy could fall into a recession. However, if they increase interest rates too slowly, inflation will stay at levels that we haven't seen in decades.

Therefore, it's not surprising to see many Canadian stocks struggle while inflation is so high. But one thing's for sure, though: this economic environment won't last forever. So, while high-quality Canadian stocks are ultra-cheap, it's an incredible opportunity for long-term investors to find attractive bargains.

## CATEGORY

1. Investing
2. Stocks for Beginners

## PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

## PP NOTIFY USER

1. danieldacosta
2. kduncombe

## Category

1. Investing
2. Stocks for Beginners

## Date

2025/08/05

## Date Created

2022/06/23

## Author

danieldacosta

default watermark

default watermark