5 Economic Indicators Investors Need to Watch

Description

There's a lot of unfounded wishful thinking occurring regarding the North American economy. Worldwide, tensions between countries are mounting and domestic strife is rampant in many nations. It seems the world economy and the overall market itself is a house of cards, which will not leave North America unscathed. Here are five economic indicators investors must be aware of when performing due diligence on publicly traded entities.

1. Canadian household debt

Credit bureau TransUnion forecast last year that the average Canadian's non-mortgage debt will increase to $28,853 by the end of this year. This is up over $1,000 from an estimated $27,743 in the fourth quarter of 2013.

This debt will affect the performance of Canada's economy. Reuters recently reported that, "Canada's economy will grow only modestly over the next two years and underperform the United States as high household debt levels and a cooling housing market restrain consumer spending."

2. Slowing China economy

For the first quarter this year, economic growth in China decelerated to 7.4%. Exports in the first quarter fell 3.4%. Imports grew 1.6%. Specifically for March 2014, exports dropped 6.6%. Imports fell 11.3%. Compared to a host of economies, China's is still strong.

Nonetheless, any slowdown will affect companies doing business with China, especially those that depend on construction. China's slowing economy has decreased demand for steel and by extension its main component "iron ore". The slowdown has also decreased demand for other building materials such as copper.

HudBay Minerals (TSX: HBM) has a 50% exposure to copper. It and other Canadian companies dependent on a continued building boom in China could see revenues fall from this market. HudBay focuses on the discovery, production and marketing of base and precious metals. Its Flin Flon, Manitoba, "777 mine" produces zinc, copper, gold and silver. The company owns an ore concentrator and a zinc plant as well.

3. Ukraine-Russia crisis

Brinkmanship in the Ukraine could dampen significantly any global recovery. In addition, Dan Kelly, President and Chief Executive Officer of the Canadian Federation of Independent Business (CFIB), recently said that events in Ukraine are not good news for Canadian firms with dealings in the Russian Federation. This is especially true as Canada and its allies continues to impose more sanctions against Vladimir Putin.

Kinross Gold (TSX: K) conducts its gold production and exploration activities mainly in Canada, the U.S., the Russian Federation, Brazil, Chile, Ghana, and Mauritania. In 2013, it completed its Russia Dvoinoye project on schedule and on budget. The company also has its Kupol project in Russia. The company is dependent on politically stable operating environments. This year, approximately 76% of its expected attributable production is estimated to originate from operations outside the U.S.

4. Housing market

Last June, the Bank of Canada said that overbuilding and overpricing in the condominium market is presenting a risk to Canadian households, banks, and the general economy. The bank is especially concerned about Toronto’s condominium market.

The Bank of Nova Scotia (TSX: BNS) said in April that a real estate slowdown in Canada may already be taking place. Bank of Nova Scotia economist Adrienne Warren stated, “Canada’s long housing cycle is turning. Residential investment stalled last year as affordability constraints tempered home sales, and builders scaled back the number of new developments.”

5. Unemployment

Economies will never fully rebound until lingering unemployment is dealt with, no matter what analysts and prognosticators say.

The Bank of Nova Scotia said in its Economic Commentary (February 2014) that, “Job cuts and layoffs, and in some cases plant closures, are still being implemented in many countries as businesses continue to operate in a world challenged by over-capacity in many sectors and ongoing competitive pressures that are forcing firms to generate increased operational efficiencies.”

The bank noted that these job cuts, layoffs, and plant closures are taking place in the resource, manufacturing, retail and service sectors, which pretty much covers everything.

Foolish bottom line

Astute investors watch and study what is really going on in the world. Tense situations can diffuse; economies can improve. However, the best investors look for proof of this, before haphazardly investing in sectors and regions likely to be adversely affected by continuing turmoil.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BNS (Bank Of Nova Scotia)
2. TSX:HBM (Hudbay Minerals Inc.)
3. TSX:K (Kinross Gold Corporation)

Category

1. Investing

Date
2025/06/29
Date Created
2014/05/01
Author
mugulini