3 Things Retail Sector Investors Must Watch for in 2015

Description

Many retailers, including **Canadian Tire Corporation Limited** (TSX: CTC.A), had an excellent year in 2014 as rising consumer confidence and a solid job market ushered new business into their stores, but will this trend continue in 2015? Here are the positive and negative influences retail stocks could experience in 2015.

Oil prices

Oil prices are both a positive and negative factor for retailers such as Canadian Tire. Relatively low oil prices are good for retailers because they translate into consumers spending less on gasoline, leaving more money for discretionary spending. However, when oil falls too low it can be a negative. Right now oil is too low, and if the ultra low prices are sustained for a significant portion of 2015, retailers will run into problems. Very low oil prices will mean oil companies will have to cut costs, and one of the ways to cut costs is through layoffs. As people start losing their jobs, they stop spending money.

When consumers tighten their belt, it is a negative for the retail sector; therefore, if oil prices remain too low throughout 2015, then retailers could suffer. On the other hand, if oil prices remain relatively low but high enough that oil producers don’t have to lay off employees, then consumers with more cash in their pockets will be a positive for the retail sector in 2015.

Consumer confidence

Increased consumer confidence is a definite positive for retailers such as Canadian Tire, and right now forecasts are for increased confidence and in turn core retail sales in 2015. The trend of increased sales and confidence largely reflects a spill-over of the strong environment in 2014, but 2014’s overall sales were impacted by the terrible weather in Q1, which prevented many consumers from getting out and opening their wallets.

This is a general statement for the industry. Canadian Tire actually benefited from the bad weather, due to the fact that the retailer sells pretty much everything Canadians need to survive the winter. In 2015, if consumer confidence does in fact remain high, then this will be a positive for the retail sector.

Income growth

Income growth is another major factor to consider when trying to gauge what is in store for the retail sector in 2015. While we all know that job growth has been positive, at the same time there has been some concerns over the rate of income growth. If we could have increased income growth with job growth at the same time then spending will increase. Forecasts or for more job growth in 2015, but predictions on income growth are not as clear-cut.

In general, there have been complaints over the degree of wage growth in the G20, but in 2007-2013 Canada was one of the top developed countries for wage growth. A big driver of wage growth in this time period was increased commodities prices. We already saw commodities prices decline in 2014, and looking forward to 2015 more losses could be in store. If commodities prices continue to slide, this will be a negative for income growth, and therefore the retail sector's performance in 2015.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CTC.A (Canadian Tire Corporation, Limited)

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