Why China Could Implode, and 1 Stock to Avoid as a Result

Description

For years, so many Canadian companies — especially those that produce commodities — have benefited from strong growth in China. But there are reasons to worry about the world's most populous country. How serious are these worries? And what should you do as an investor? Let's take a look below.

This could get really ugly

While China's growth over the last 15 years has been impressive, there are some very dark clouds on the horizon.

First of all, private debt in China grew by roughly 80% *per year* between 2007 and 2013. And that does not even include the massive shadow banking sector. The government of China knows that debt-fueled growth is needed to avoid any serious unrest; for that reason, it has forced the banks to lend ever-greater amounts of money.

Much of this debt has been used to fund the growing property market. But there are signs that the Chinese have overbuilt and that the property market is in serious bubble territory. According to an article by Joe Magyer of *Motley Fool Australia*, 28% of homes in Beijing have not used electricity for six months (indicating they are vacant).

And the Chinese property market is starting to crack. Home prices have declined for four straight months. Developers have been defaulting on loans, and steel demand fell last year for the first time in 14 years.

Commodity prices could get slammed

There's no denying that China's growth has been an absolute boon for commodities. But if the country falters, then commodity prices could get crushed. Nowhere is this more apparent than in steel, which is mainly used in the construction of buildings.

In fact, China accounts for roughly half of worldwide steel use, and this share has grown dramatically in recent years. As the country has slowed down, we've already seen steel prices plummet. By one estimate, Chinese steel prices have fallen by 15% just since mid-December.

Prices for steel inputs have also gotten crushed. For example, last year, iron ore prices fell by about half. And if China's property market implodes, like so many are predicting, the news could get a lot worse.

One company to avoid at all costs

Life has not been fun for shareholders of **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK), whose stock has fallen from more than $60 in 2011 to under $20 today. And the shares have plenty of room to fall further.

This is because Teck's main product is metallurgical coal, which is used to make steel. We've already seen Teck's met coal price plunge by 57% in the last three years. But as we've seen, this could only be the beginning, and personally I don't want to take that chance.

If you're looking for a comeback story, you're much better off looking outside the commodity-based sectors. On that note, the free report below reveals a very compelling option.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:TECK (Teck Resources Limited)
2. TSX:TECK.B (Teck Resources Limited)

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