What to Expect From Royal Bank of Canada in 2016

Description

When it comes to investing, there are fewer options that are safer than Canada's big banks. As the largest of Canada's banks, **Royal Bank of Canada** (TSX:RY)(NYSE:RY) has the financial muscle and international footprint to weather any storm in any segment of the economy.

Last year proved to be a difficult year for the market, and this was no exception for Royal. The stock finished the year down by over 7%, and all signs lead to another difficult year ahead in 2016. Here's what investors can expect to see in 2016.

Weak economy and the impact of job losses

The weak economy of 2015 is likely to continue into 2016 as the ripple effects of weak commodity prices continue to drag down the economy and, by extension, Canada's banks. Job losses, particularly in those commodity sectors, have led to increases in household debt as people have turned to using credit and loan-based debt to cover expenses in the absence of a paycheque.

If the job market does not improve during the first half of 2016, recently unemployed workers that are drawing on credit to cover expenses could spell trouble for banks as it becomes harder for them to pay bills and they slip into delinquent accounts.

To paint a picture as to how dire this could be on the economy, consumer debt hit a whopping $1.89 trillion leading in to the last quarter of 2015, and on average every consumer owed $1.64 for every dollar that was earned. Even if a tiny amount of that consumer debt becomes overdue, banks could be left with a bill for billions.

Fortunately, Royal is well capitalized to weather this type of storm, and the impact on the bank would only be felt when workers are left jobless for several months and fall several more months behind in payments. If this scenario were to emerge, it would not occur until midway through the year, leaving the banks ample time to shore up funds and cut costs, which Royal and others have already started doing.

Cost cutting and the impact of technology

One area that Royal focused on in 2015 that is expected to continue into 2016 to an even greater extent is the use of technology. With consumers more connected than ever before to technology, there is a decreasing need for traditional branch-based banking. This has led the bank to put an emphasis on using technology for everyday transactions such as mobile deposits. This trend is likely to accelerate in 2016 as a means of keeping costs under control.

This was already evident with the elimination of 900 jobs by the bank in the last quarter of 2015 in an effort to streamline operations and make it easier for clients to conduct banking.

Royal's acquisition of Los Angeles-based City National last year seems to be one area where the bank will excel during 2016. An increased presence in the U.S. will not only diversify the bank's operations, but also increase the footprint of the company in the U.S. market, which is faring much better than Canada at the moment.

This year is more than likely going to be another year of uncertainty for the market as commodity prices, jobs, and the weak loonie all force the economy into what can be best described as a weak recovery.

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