



## 2 Stocks Sharply Impacted by the Slump in Commodities

### Description

The rout in commodities not only affects miners and those companies directly associated with the sector but has spilled over and impacted a range of industries across Canada's economy, making their earnings and growth prospects vulnerable to deteriorating prices.

### Now what?

One industry that has been hit particularly hard by the slump in commodities is Canada's rail industry. The significant dip in demand for commodities, particularly coal and crude, has triggered a substantial decline in freight volumes.

This recently forced **Canadian Pacific Railway Limited** ([TSX:CP](#))([NYSE:CP](#)) to issue a rare profit warning; it announced that second-quarter 2016 results will come in significantly below expectations due to a massive 12% decrease in freight volumes over the course of the quarter.

**Canadian National Railway Company** ([TSX:CNR](#))([NYSE:CNI](#)) and other North American railways have also experienced a deterioration in freight volumes.

However, the impact won't be as severe for Canadian National because it is not as heavily exposed to coal, which is the commodity most severely impacted by the commodity rout. You see, Canadian National only earns 5% of its revenue from coal compared to the 10% earned by Canadian Pacific.

Another industry encountering considerable headwinds because of the collapse in commodities is Canada's banks. Many have considerable direct and indirect exposure to energy and mining.

The bank with the largest exposure to commodities is **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) with \$16 billion in drawn commitments to the energy patch and a further \$8 billion to mining and metals processing.

Then there is its significant exposure to the commodity-dependent economies of Colombia, Peru, and Chile. All three emerging nations have suffered significantly because of weak coal, oil, and copper prices; their economic growth has deteriorated markedly over the course of 2015 and 2016.

An example of this is Colombia, where oil and coal make up over 70% of its total exports, which reported its worst quarter for the first quarter 2016 of economic growth since the global financial crisis.

Furthermore, Peru and Chile have also experienced weak economic growth. Their GDP only expanded by 1.9% and 1.3%, respectively, for the same quarter, with both Andean nations heavily dependent on the mining and export of base metals as key levers of economic growth.

This has not only negatively affected credit growth for Bank of Nova Scotia's businesses in the region, but it's also triggered an increase in impaired loans as borrowers feel the impact of weak economies and higher inflation.

### **So what?**

Commodities are an important driver of Canada's economic growth and are responsible for generating over 7% of its GDP and account for 38% of its exports, so the protracted slump in commodities continues to hit the economy hard.

Not surprisingly, this has spilled over into a range of industries with Canada's rail and banking industries among the most exposed. Nevertheless, this does not necessarily make companies in those industries bad investments, but investors should be prepared for further profit warnings and diminished growth prospects until there is a significant uptick in commodity prices.

### **CATEGORY**

1. Bank Stocks
2. Investing

### **TICKERS GLOBAL**

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:CNI (Canadian National Railway Company)
3. NYSE:CP (Canadian Pacific Railway)
4. TSX:BNS (Bank Of Nova Scotia)
5. TSX:CNR (Canadian National Railway Company)
6. TSX:CP (Canadian Pacific Railway)

### **Category**

1. Bank Stocks
2. Investing

### **Date**

2025/08/25

### **Date Created**

2016/06/23

### **Author**

mattdsmith

default watermark

default watermark