Strong Consumer Spending in the U.S.: What Does it Mean for Canada?

Description

Consumer spending accounts for over 65% of U.S. economic activity, which makes it a very important indicator for economic growth. And given that we are seeing strong and better than expected consumer-spending numbers, we have reason to be optimistic. The third quarter of 2016 ended on a strong note, and this continued into December, when consumer spending increased 0.5% after a 3.8% year-over-year rise in 2016 and a 3.5% rise in 2015.

On top of this, the inflation rate has hit a four-year high of 0.6% in January, and year-over-year inflation was 2.5%. So, growth is stronger, unemployment is lower, and wages are higher. This leaves U.S. policy makers in a position to continue with confidence on its path of raising interest rates.

The economy has been more sluggish in Canada compared to the U.S., and the Bank of Canada has held off on raising its key interest rate. But a strengthening U.S. economy, our biggest trading partner, is good for Canadian exports. And if the U.S. interest rate increases faster than Canadian rates, we would see a weakening of the Canadian dollar, which would further spur demand for Canadian exports.

Let’s go back to the consumer-spending numbers. We have seen evidence of this trend in some of the results that U.S. retailers have posted recently. Same-store sales at **Wal-Mart Stores, Inc.** (NYSE:WMT) were +1.8%, representing its 10th consecutive quarter of growth, but continued investments in the business meant that margins were below expectations. The key to this story, however, is online sales, which increased 29%. At **Home Depot Inc.** (NYSE:HD), same-store sales growth was a healthy 5.8% (6.3% in the U.S.), and earnings came in above expectations.

For now, interest rates are rising from extremely low levels, so the American consumer should be okay to bear the increases expected this year. But what about Canadian retailers? Well, a weaker Canadian dollar will discourage Canadian shoppers from heading south for cross-border shopping, and the Canadian retail landscape has also been changing dramatically.

Here are two of the winners.

Canadian Tire Corporation Limited (TSX:CTC.A) is one Canadian retailer that has been thriving, and we have seen more evidence of this in its latest results. Same-store sales at the Canadian Tire banner stores increased a very healthy 8.1%; same-store sales at Mark’s Work Warehouse increased 10.6%; and same-store sales at FGL Sports increased 5.1%. In addition, Canadian Tire has grown its EPS from $7.02 per share in 2013 to $9.22 in 2016. In 2016, EPS increased 11.3%. The stock trades at a P/E ratio of 16 times.

Another Canadian retailer that is thriving is **Indigo Books and Music Inc.** (TSX:IDG), which reported a 4.5% increase in same-store sales and an 11.8% increase in online sales in its latest quarter. With more Canadian shoppers shopping in Canada, retailers will reap the benefits.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:HD (The Home Depot Inc.)
2. NYSE:WMT (Wal-Mart Stores Inc.)
3. TSX:CTC.A (Canadian Tire Corporation, Limited)
4. TSX:IDG (Indigo Books & Music)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/08/16
Date Created
2017/02/24
Author
karenjennifer