The Consumer Is Dying: Where Should Investors Turn?

Description

The economy has long been driven by the consumer, as interest rates reached record lows and stayed there for a prolonged period of time, leaving consumers with the ability to take on increasingly larger amounts of debt to fund everything thing from bigger homes to more cars to more “toys” in whatever form they may take.

But with interest rates on the rise (recall that the Bank of Canada has increased rates two times in the last few months to the current overnight rate of 1%), the strength of the consumer has to be placed into question.

Interest rates have come up 50 basis points this year, and with economic growth at 4.5% in the second quarter, rates may be going even higher to stave off inflation in the future.

Consumers are drowning in debt. Stats Canada released the household credit market debt as a proportion of disposable income was 167.8% — up from 166.6% in the first quarter. And household debt per capita is $285,900.

We are living beyond our means, and this comes at a price we may see sooner rather than later, as the strength of the consumer is being placed more into question, and as interest payments rise faster than we would like.

Higher interest rates reduce disposable income, make defaults a real possibility, and result in lower consumer spending.

So, if we cannot rely on consumer spending as our source of growth going forward, where do we turn?

Here are a couple of names that I think will be the new areas of growth going forward.

Suncor Energy Inc. (TSX:SU)(NYSE:SU) has spent the last few years investing in its business with the goal of increasing efficiencies and driving down costs to make it at lower oil prices as well as to ensure it has a good inventory of production growth opportunities. The stock currently has a dividend yield of 3.1% and raised its dividend by 10% earlier this year.

With free cash flow set to rise in the coming years, I think this stock is a good buy for investors seeking exposure to the oil and gas sector.

Labrador Iron Ore Royalty Corporation (TSX:LIF) is a great addition to the portfolios of investors who are looking for a strong dividend yield, security of the dividend, and capital appreciation.

The iron ore market is seeing strength after a long period of weakness, and while the shares have appreciated significantly, they still represent good value.

During the hard times, many improvements have been made that have resulted in lower costs and greater production. The current dividend yield is 4.77%.

In summary, there are plenty of sectors that are not as dependent on “consumer spending” that are expected to outperform going forward. These are just two of them.

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