Retail Sales Are Slowing and Consumers Have Record High Debt Levels: I'm Still Betting on These 2 Stocks

Description

Retail sales are showing that consumer spending is slowing — not an unexpected development. With interest rates on the rise, and household debt continuing to be at very elevated levels, we know that the day of reckoning has to come.

The consumer cannot keep spending at the levels of earlier this year, and now we have clear data that supports this thesis.

Retail sales in September were pretty much flat, or 0.1% higher, and this was pretty much due to gasoline sales. In fact, if we take out gasoline from the sales number, retail sales actually declined by 0.2%.

So, against this backdrop, should we steer clear of all stocks that are reliant on robust consumer spending?

Well, yes and no.

On the one hand, yes, if we would like exposure to the retail sector, we should focus on defensive companies, such as food retailers — those that consumers need to shop at because they provide essential products. **Empire Company Limited** (TSX:EMP.A) is a good one.

Not only is this a defensive company because it is a food retailer, but also, the stock's valuation is good, as the company is still in the process of climbing its way out of the mess it found itself in after the Safeway acquisition.

Empire is Canada's second-largest food retailer, with a new strategy, with new CEO Michael Medline at the helm initiating cost streamlining, operational changes, and a marketing effort to win back its customers.

And hopes are high, as this is the same guy who came in and led the extraordinary turnaround at the once sleepy **Canadian Tire Corporation Limited** until his departure in 2016.

The stock is cheap right now — a reflection of years of problems and sub-par performance, but it doesn't factor in the success of the turnaround strategy.

And we can invest in retailers that have been exceptionally successful and that can be expected to continue to do so — retailers like **Sleep Country Canada Holdings Inc.** (TSX:ZZZ).

As the only specialty mattress retailer in Canada, Sleep Country, with an above-industry ROE of 20% and a 57% increase in revenue since 2012, looks like a real contender in the retail world.

Sears Canada's demise brings with it a great opportunity for Sleep Country, as Sears was one of Canada's leading mattress retailers. Sleep Country has 25% market share in a market that is highly fragmented, so there is a real opportunity for consolidation.

So, the consumer is slowing down but is not dead, so we can still find companies that will thrive in this sector.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CTC.A (Canadian Tire Corporation, Limited)
2. TSX:EMP.A (Empire Company Limited)
3. TSX:ZZZ (Sleep Country Canada)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date
2025/08/19
Date Created
2017/11/28
Author
karenjennifer