Minimum Wage Hikes to Cost Jobs: Will Stocks Take a Hit as Well?

Description

The Bank of Canada released a research note in the first week of January that estimated minimum wage hikes could results in the loss of 60,000 jobs by 2019. Its most optimistic model projects about 30,000 job losses, while the higher end model saw as much as 136,000 job losses resulting from the policy change.

A report from **Toronto-Dominion Bank** in September projected that minimum wage hikes could cost up to 90,000 jobs by 2020. However, the report projected a positive long-term impact from the hikes.

In an October article I'd covered the Ontario minimum wage hike and discussed its impact on grocery retailers. The reformist policy maneuver actually gives companies the impetus to accelerate modernization plans, including moves to increase automation.

Seattle was the first city in the United States to pledge to gradually raise the minimum wage, eventually hitting $15 by 2021. A study from the University of Washington showed a large reduction in employment for those earning less than $13/hour. By contrast, a study from *The New York Times* polling 137 separate cases found very little change in the five-year period following the increase.

The Ontario minimum wage is now at $14/hour as of January 1. In October **Loblaw Companies Ltd.** (TSX:L) laid off 500 office workers in order to cut costs in anticipation of the hike. When the policy change was announced, Loblaw initially estimated that it would raise operating costs by $190 million in 2018. However, the company said that grocery retailers were facing a number of issues, including the challenge of e-commerce giant **Amazon.com, Inc.** as it makes its foray into the grocery realm.

In the same month, Montreal-based **Metro Inc.** (TSX:MRU) announced that it would cut 280 jobs in Ontario by 2021 as part of its modernization efforts. The company also has plans to build a new fresh distribution centre and frozen distribution centre. Metro stock has climbed 2.3% in 2018 as of close on January 4.

Dollarama Inc. (TSX:DOL) addressed the minimum wage increase in its third quarter results released on December 6. Dollarama projected that the hike will impact selling, general, and administrative expenses in 41% of its locations. In December I'd discussed whether or not investors should bet on

Dollarama after its incredible run for the majority of 2017.

Leadership is working under the assumption that competitors will absorb the consequences of the increase, and thus the company sees little reason to raise retail prices in the near future. Dollarama stock has dropped 2.6% in 2018 as of close on January 4.

Larger retailers, especially those in the grocery industry, face bigger challenges in the form of the rise of e-commerce business that will hurt its brick-and-mortar retail model. Businesses have been quick to react to the news in implementing aggressive modernization plans. In this case, significant job cuts illustrate how quickly companies are able to adapt to the progressive policy.

There is good reason to believe that these companies will also increase hiring in other areas. For example, Loblaw has stated that its investment in omni-channel, financial services, and other sectors should spark hiring in the long term.

CATEGORY

1. Investing

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2. TSX:L (Loblaw Companies Limited)
3. TSX:MRU (Metro Inc.)

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