Rising Minimum Wages Could Make 2018 a Disastrous Year for Retail Stocks

Description

Minimum wage workers in Ontario got a 21% raise on January 1. While some workers will get a boost in salary, others will lose their jobs. The Bank of Canada estimates that by 2019 as many as 60,000 jobs could be lost as a result of the increase in wages.

For many small businesses, this is a significant increase in cost that could put some stores out of business. Retail in Canada has been struggling for years, and you only need to look at the ongoing Sears Canada liquidation as a reminder that even the big stores are not immune to failing.

Many shopping centres in Canada are still struggling to fill the voids left by **Target Corporation** after the big-box retailer failed in its expansion efforts north of the border. Rising wages will make it harder not only for Canadian retailers to survive, but it will make expanding into Canada less appealing to foreign companies.

More wage hikes are coming

Workers in Ontario will now be making $14/hour, but that will rise to $15/hour a year from now. However, it's not the only province that will be raising its minimum wage this year. Alberta is also expected to raise its minimum wage to $15 as early as this fall.

How rate hikes will hurt retail stocks today

The difficulty for many retailers is that a rising minimum wage can be combated one of two ways: by raising prices and passing costs on to consumers, or by cutting costs and perhaps reducing staff.

The problem is that in a very competitive industry, where online giants like **Amazon.com, Inc.** can steal your customers if your prices are not competitive, then raising prices might not be a feasible option for companies like **Canadian Tire Corporation Limited**, or even **Loblaw Companies Ltd.** (TSX:L), which recently admitted to inflating bread prices for over a decade.

Even a company like **Dollarama Inc.** (TSX:DOL) will find it challenging to raise prices, especially as it tries to price its products at no more than $4.

Although retailers can choose cut staff instead, without creating some efficiency to meet day-to-day needs, that may not be a viable option either.

The long-term impact could be even more severe

Wal-Mart Stores Inc. (NYSE:WMT) is experimenting with a cashierless store experience, and retailers will be keeping a close eye on that and other possibilities for automation in the industry, as that will offer a way for stores to reduce staff without having an adverse impact on operations.

Rising wages will only accelerate the urgency for stores like Wal-Mart and others, particularly in Canada, to find ways to be able to get rid of staff, because raising prices may not be a successful solution in the long term.

While losses will be significant in the next year or two, that will pale in comparison to how many jobs are lost in the long term as automation reshapes the retail industry.

Bottom line

Automation is the only real solution to rising costs, and investors would be well advised to look for companies like Wal-Mart that invest heavily in technology.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:WMT (Wal-Mart Stores Inc.)
2. TSX:DOL (Dollarama Inc.)
3. TSX:L (Loblaw Companies Limited)

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