



What Do U.S. Cannabis Sales Reveal About the Canadian Legal Cannabis Market?

Description

In January, Statistics Canada released a report that estimated Canadians spent \$5.7 billion on cannabis in 2017 – 90% of which was for recreational purposes. In contrast, Canadians spent \$22 billion on alcohol and \$16 billion on tobacco in 2017. The report also showed that Canada exported \$1.2 billion worth of illegal cannabis in 2017.

The news emerged in the midst of a correction for cannabis stocks in Canada. Several companies, [including the two largest producers](#) in Canada, **Aurora Cannabis Inc. (TSX:ACB)** and **Canopy Growth Corp. (TSX:WEED)**, saw market caps surge into the billions during a furious rally that gained steam in the late summer and early autumn of 2017.

Canopy Growth CEO Bruce Linton took issue with the report issued by Statistics Canada. Linton believes that the numbers grossly underestimate the potential of the legal cannabis market in Canada. In an interview with BNN, Linton estimated that the market “is going to be between \$6 billion and \$10 billion.” This growth will be dependent upon the development of supply chains and the legalization of edibles, which producers expect to follow in the short term.

How realistic is Linton’s projection? Let’s take a look at the growth trajectory of the cannabis retail market in Colorado and Washington state, two states that [legalized recreational use in 2014](#), to gain an indication as to how long it will take for the market to kick into high gear.

Colorado cannabis sales reached \$1.51 billion in 2017, up 15.3% from 2016. The Denver-based Marijuana Policy Group LLC estimated that 90% of black market sales had been absorbed into the regulated market. The State of Colorado has a population of about 5.5 million people. The Marijuana Policy Group projected that sales would decline in 2018 as more states moved to legalize recreational cannabis, which would push away out-of-state buyers.

Washington State, which has a population of about 7.3 million, saw cannabis retail sales hit \$919 million in 2017. With processors and producers total sales were over \$1.4 billion. The state has been plagued by regulatory hiccups that could see a significant oversupply problem in 2018.

It is important not to deduce the potential of the Canadian market from these numbers alone, especially given the regulatory differences and the impact of out-of-state buyers. However, the relative size of the markets and rapid growth in sales year-over-year do give us a snapshot of how slow things may be right out of the gate.

The Ottawa-based e-commerce giant **Shopify Inc.** was recently selected by Ontario (by far the largest market in Canada), to run online cannabis sales in Ontario. The Ontario government will be the sole distributor of legal cannabis in Ontario through the Liquor Control Board of Ontario (LCBO). There will be 40 brick-and-mortar locations set to service Ontario once recreational cannabis becomes legal, sparking worries that producers will be unable to keep up with the expected surge in demand.

After a period of rampant speculation, investors should be entering into the “show me” phase as we look ahead to legalization. This could result in further corrections for cannabis stocks in the late fall and early spring of 2018.

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