Is it Time You Considered Selling Your Grocery Stocks?

Description

Make no mistake — it's been a great decade for many of Canada's leading grocers.

But following a such a historic run, is it time that you considered parting ways with the stocks of companies such as **Loblaw Companies** (TSX:L), **Metro (TSX:MRU)**, and **George Weston** (TSX:WN) in search of something a little better?

Shareholders in Loblaw, Metro, and Weston have seen the value of their investments rise by 174%, 514%, and 170%, respectively, over the past 10 years. Those types of gains are all that more impressive in light of the mature nature of the food-retail business.

But now 10 years removed, there are signs that run may be on the verge of coming to an end.

The "Amazon Effect"

Up until recently, it could be argued that perhaps food retailers have been unscathed by the emergent threat of e-commerce by the likes of **Amazon.com** (NASDAQ:AMZN) and other online outlets.

While Amazon recently bought health-food chain Whole Foods for US$13.7 billion, it may not be the online giant that Canadian grocers need to worry about.

They may, in fact, need to be keeping a closer eye on **Costco Wholesale** (NASDAQ:COST), which recently announced the launch of a pilot project in Ontario that will see it deliver food and household products directly to consumers' homes.

Not only does the proposed program give shoppers the convenience of shopping online, but it also removes the need to pack, carry, and transport the outlet's famous bulk orders from its stores back home.

Costco has already seen market share gains, and it will be interesting to see if the latest project will be successfully rolled out.

Niche and convenience

Beyond the threat of e-commerce, Canada’s grocers are also seeing their proverbial lunches being eaten by specialty stores and options that stress convenience over breadth of selection.

A report from the *Toronto Star* suggests that food sales at convenience stores are up 6% this year, while sales from specialty stores like Goodbye Gluten and The Bee Shop are up more than 10%.

A population that is staying single for longer and working longer hours may help to explain the demand for convenience and pre-made meals, and higher disposable incomes could explain the justification for purchasing premium, specialty products.

Food … deflation?

According to Statistics Canada, food prices have been dropping across the board this year.

While that may be welcome news for the average Canadian household, in fact, it’s far from good for the thousands of Canadians employed in the food industry as well as the grocers themselves, which are now facing their own set of challenges, as they search for new ways to boost top-line growth.

From bad to worse?

Making matters potentially worse are anticipated U.S. import tariffs on everyday items like ketchup and orange juice. Those items may, on the surface, appear to give the impression that grocers are enjoying a period of robust growth.

However, higher food prices are also going to end up directly impacting retailers’ input costs, including the cost to purchase raw produce from farmers — particularly farms located south of the border.

And on top of that, if the Bank of Canada were to raise interest rates again before this year is out, that could end up forcing Canadian households to tighten their purses strings, dialing back their purchase of higher-ticket items.

Stay Smart. Stay Hungry. Stay Foolish.

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3. TSX:L (Loblaw Companies Limited)
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