Recession 101: Part 4 of 5

Description

Yesterday, I talked about industries that are essentially recession-proof. The two that I focused on were utilities stocks and consumer staples, which have proven they insulate investors from the full effects of a recession.

Today, we are going to talk about industries that you should avoid during a recession. The two that we will focus on are furniture stores and recreational products.

Furniture stores

According to an article by *CNBC,* from 2009-2010 the furniture store industry saw its sales decrease by 0.54%. Although this does not sound like much, the furniture industry in the United States is estimated to be in excess of US$100 billion a year, which means this decrease translated into a $540 million shrinkage of the industry.

I recently wrote an article whereby I was bullish on **Leon's**, so I wanted to clarify that my position was for a long-term investment. In an economy experiencing a recession, I believe that furniture stores are poorly positioned, because they sell consumers products that they don't need.

Contrary to my article yesterday about bullish industries during a recession, a new couch or a new bed frame is not a necessity, which means during an economic downturn, investors will not line up to buy these products. A recession also causes a decrease in building and buying houses. This leads to a reduced demand for furniture purchases.

Subsequently, furniture stores are not good investments when an economy is experiencing a recession.

Recreational products

This probably goes without saying, but if a family can barely afford to feed itself, it is unlikely to be shopping for a boat or ATV anytime soon.

Statistically speaking, this is true, with the article from *CNBC* reporting sales decreasing by 2.59% from 2009 to 2010. The boating industry in the United States alone is estimated at $41 billion, which means the contraction cost the industry at least $1.1 billion in sales.

One company that I am very bearish on is **BRP**, which used to be the recreational product subsidiary of **Bombardier** but now operates as a separate entity. The reason why sales decline in this industry is because these products tend to be very expensive, and consumers that are in a precarious position do not want to spend money on non-necessities.

Another reason why sales decrease in this industry is because people who are tight for cash may be looking to sell the recreational products they currently own. This means that the market may be flooded with these products, which drives the price down.

Bottom line

There are several industries that you want to steer clear of during a recession. These industries share one common trait, which is the fact that they provide non-necessities. One easy way to determine if an industry is a non-necessity is to ask yourself how important the product is to your well-being.

Industries such as consumer staples and utilities are necessary parts of our everyday lives. Without a toothbrush, we would have poor oral hygiene, and without electricity, it would be hard to make food and keep our fridges cold.

Without a new couch or a new RV, our well-being is not threatened. It is definitely a downgrade in terms of our standard of living, but it doesn’t negatively impact our health.

Join me tomorrow for the final part of this mini-series, where I will talk about a post-recession economy.

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