



With a Recession Looming, Avoid Teck Resources (TSX:TECK.B)

Description

Weak U.S. manufacturing data last week, which was the worst reported since the Great Recession a decade ago, sparked a global sell-off among equity markets, which saw the TSX plunge before recovering to end last week down by almost 2%. While sentiment has improved, there are signs that a [recession](#) could occur sometime soon.

Is an economic slump due?

This is not only due to the trade war between the world's two largest economies: the U.S. and China. There are a series of other indicators, including a broad slowdown of manufacturing activity across most major industrialized nations: the U.S., China, Japan, South Korea, and Germany. A worldwide slowdown in manufacturing activity is symptomatic of a looming economic slump, because it demonstrates consumption is waning and exports are in decline.

It also indicates that manufacturers are reducing the tempo of operations in response to softer consumption to reduce costs. This ultimately leads to lower employment and gross domestic product (GDP), particularly in nations like China, where industry is a key driver of growth.

That doesn't bode well for many stocks, particularly those in the energy and materials sectors. Among the hardest hit in recent months have been miners such as **Teck Resources** ([TSX:TECK.B](#))([NYSE:TECK](#)) and **First Quantum Minerals** as well oil stocks, notably upstream explorers and producers. Teck has lost 29% since the start of 2019, whereas First Quantum is down by 12%.

The reason for this is quite simple; base metals miners are highly dependent on globally manufacturing activity, particularly in China, which is the world's single largest consumer of base metals, steel, and coal. China has become known as the world's workshop and is responsible for over a fifth of the total global manufacturing output. However, the impact of softer U.S. manufacturing data shouldn't be understated, because it is responsible for roughly 20% of the world's manufactured goods.

Those numbers also illustrate why the economic fallout from the U.S./China trade war can be so damaging and has the potential to trigger a global recession. A global recession could trigger another

decline in commodity prices.

Teck's vulnerability is highlighted by its second-quarter 2019 results, where it generated 51% of its revenue from steel-making coal, 21% from copper, and 19% from zinc, all of which are key elements used in a wide range of manufacturing processes. According to the World Steel Association steel demand growth will expand by just over 1% in 2019 and then by 1% in 2020, because of the poor global economic outlook, and that certainly doesn't bode well for Teck.

The bad news doesn't end there for Teck. It also earned 9% of its second-quarter revenue from oil because of its 21% interest in **Suncor's** Fort Hills oil sands operation. The outlook for crude remains poor for the same reasons as other commodities, including base metals and steel-making coal.

There are fears that a global recession could trigger another commodities slump, which certainly doesn't bode well for Teck, although it may not be as long in duration or as deep as the last great slump, which ended in 2016.

Foolish takeaway

The growing likelihood of a global recession makes base metal miners unappealing investments. Teck has already been heavily marked down by the market since the start of the year, and there is every sign that its market value will decline further; a raft of poor [economic news](#) from around the world weighs on the miner's outlook. For these reasons, Teck is not an appealing investment, and investors should look elsewhere.

CATEGORY

1. Investing
2. Metals and Mining Stocks

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:TECK (Teck Resources Limited)
2. TSX:TECK.B (Teck Resources Limited)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing

2. Metals and Mining Stocks

Tags

1. Editor's Choice

Date

2025/09/09

Date Created

2019/10/07

Author

mattdsmith

default watermark

default watermark