



Bullish on the Canadian Economy? This Stock May Be Your Best Bet

Description

2019 has been a good year for the markets, with [stocks hitting record highs](#) in both the U.S. and Canada.

Despite mixed economic data, the markets appear to be pricing for future growth.

In the most recent quarter, GDP limped along at just 0.1% year over year, while recent data showed that the economy shed 1,800 jobs last month.

These signals indicate a fairly tepid macro environment, but that doesn't mean it can't turn around. In fact, investors as a whole seem to be betting that it will. If you're one of them, here's a stock that could be a solid pick.

Leon's Furniture

Leon's Furniture ([TSX:LNF](#)) is a Canadian furniture store chain that operates 304 stores nation-wide.

It operates under a number of different brands, including Leon's, Appliance Canada, and The Brick — [a recent acquisition](#).

In its most recent quarter, the company delivered modestly good results to investors, including a 1.5% increase in revenue and a 40% increase in adjusted EBITDA. In the same quarter, the company opened three new stores and increased same-store sales by 0.64%.

For the most part, Leon's Furniture is growing, although not exactly at a frantic pace. However, a stronger economy could turn things around in a big way.

Why it's a great bet for a bullish economy

Furniture stores stand to benefit from domestic economic growth for a number of reasons.

First, as local-market-oriented retailers, their sales come primarily from their home country, and therefore they benefit from increased consumer spending.

Second, they sell high-priced products that people buy more of when times are good. Furniture stores are among the industries hit hardest in recessions, because their products are usually considered “major purchases.” During recessions, people cut back on such purchases, as declining wages and job losses eat into their spending power. Conversely, such purchases increase more during recoveries than other types of purchases.

Leon’s, as a Canadian furniture store, would likely benefit from an increase in Canadian economic growth. In the past year, the economy has been sluggish, and this is reflected in the slow revenue growth we’ve been seeing from the company. With a stronger economy, consumers would have more money to spend on the company’s items, and therefore be more likely to buy from Leon’s as opposed to seeking used furniture or avoiding furniture purchases altogether.

The one big risk

The main risk facing Leon’s is the possibility that the slow economic growth we’re seeing not only continues, but spills over into a full-blown recession. After 10 years of solid economic growth, we’re long overdue for a downturn, and negative growth is much worse for furniture stores than it is for most businesses. Nobody knows when the next recession will strike, but when it does, it will be bad news for LNF — at least in the short term.

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