



UPDATE: Are Cannabis Stocks Recession Proof?

Description

Back in March, I'd discussed the [prospects for cannabis stocks](#), as Canada veered towards a certain contraction. This was a topic I'd explored in past articles as the cannabis sector had garnered huge interest among investors. The alcohol sector has proven resilient in the face of economic turbulence in past cycles, so there was hope that cannabis' position as an intoxicant could also make it a worthy target.

How has cannabis stacked up after several weeks of a broad economic pause? Let's dive in.

Recession proof? The sales bump has been short-lived

Online provincial cannabis stores in Ontario and Quebec reported a surge in orders in the first half of March. The threat of a recession and measures introduced to fight the COVID-19 outbreak have led to panic buying at grocery stores. At the time, it was unclear whether this was the beginning of an uptrend or just a blip. Unfortunately for the sector, new data is leaning towards the latter.

United States cannabis sales in the states of Colorado, Washington State, and California have softened since a sharp spike early in March. Sales were down year over year at the end of the month in Colorado and Washington State and only up 9% year over year in California.

Inventory data from the Ontario Cannabis Store (OCS) has shown that the sales bump has evaporated from early last month. Levels of dried flower on the OCS website fell by 13,000 items during the week of March 13. However, those levels bounced back two weeks later to normal levels. The same phenomenon was observed for vape products. This is not great news for cannabis stocks.

Aurora Cannabis had the most net sales over the past month with roughly 6,400 dried flower items sold, according to **Bank of Montreal** tracking data. Shares of Aurora Cannabis received a boost over the past week, but volatility struck again on April 1. The stock was down 10.71% at the time of this writing on Wednesday. BMO also noted that Aurora has not replenished its inventory as often as its peers have.

Canopy Growth is also covered by BMO's cannabis tracking model. It sold approximately 5,800 items over the same period. Canopy Growth stock was down 5.71% in early afternoon trading on April 1. Neither cannabis stock has provided cover as Canada sinks into a recession.

Cannabis stocks needs a boost this year

Recent data seems to illustrate that lock downs across Canada have only generated a temporary boost for the cannabis sector. Cannabis stocks will search for momentum elsewhere, but it will be hard to come by in an economy that may be heading for one of the sharpest contractions in history. There was hope that U.S. federal legislation may be on the way, but the sure loss of Bernie Sanders in the Democratic primary has largely extinguished that hope.

Cannabis stocks are unlikely to be as resilient as alcohol amid a recession. Worse yet, many top cannabis producers are [wrestling with cash issues](#) that will be exacerbated due to these conditions.

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