



CERB's Impact on the Canadian Economy

Description

The Canadian Emergency Relief Benefit (CERB) was one of the most aggressive stimulus programs in the world. When the global economy dipped into recession and families were confined to their homes, the Canadian government stepped in with a record-breaking handout to keep millions of citizens afloat.

Now, after the program has been wound down and the economy is on a path to recovery, it's time for investors to assess the long-term effects of this stimulus program. Here are the top three macroeconomic impacts of the CERB program.

CERB deficit

The government estimates that the CERB program cost a total of \$71.3 billion. Coupled with all other benefit programs and a shortfall in tax revenues over the past year, the government's fiscal deficit could hit \$381.6 billion, or 17.5% of gross domestic product.

That's a 10-fold jump from the previous year. Eventually, the government will have to tackle this deficit. While there's no formal plan yet, investors can expect the government to cut back on spending, raise taxes, and potentially devalue the Canadian dollar to reduce the deficit.

These moves will have an impact on corporate earnings and the stock market. Companies with sales spread across the globe could be better positioned for a devaluation in the Canadian dollar.

Record-high savings

With cash flowing in from CERB and the economy shut, Canadian households have built up record-high savings. The savings rate hit 14.6% in the third quarter of 2020. Double-digit savings haven't been seen for decades.

As the economy reopens and the vaccination drive gains traction in the months ahead, this pent-up buying power could be unleashed. Consumer products and stocks could surge as people go on a spending spree. Travel, leisure, cosmetics and retail stocks could be the top beneficiaries of this trend.

CERB risk tolerance

The government's widening of the safety net was unexpected last year. However, such a move will be expected in the next crisis. That means investors should consider raising their risk tolerance and deploying cash in high-growth stocks with potentially bigger payoffs.

Top pick

CERB's impact on savings and risk tolerance could make high-growth stocks like **Aritzia** ([TSX:ATZ](#)) more appealing. The brand saw sales dip last year, as consumers cut spending on clothes and accessories. This year's reopening could [boost demand for the company's products significantly](#).

Aritzia's expansion into the United States limits its exposure to the Canadian economy. If the Canadian dollar depreciates, U.S. dollar sales should offset the loss.

The stock is trading at just 3.9 times sales. That makes it one of the most reasonably priced growth stocks on the market. Keep a close eye on this one for 2021.

Bottom line

CERB may have raised investors' risk tolerance and household savings. The program could have an impact on the value of the Canadian dollar. This could benefit high-growth stocks with an international presence. Clothing brand Aritzia is a top pick for 2021.

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