



## E-Commerce and Recession: Has Shopify Stock Hit the Bottom?

### Description

The e-commerce growth spree has reversed, as sky-high inflation and rising interest rates slow consumer spending on discretionary items. **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) stock fell 78% from its November 2021 high and is trading even below its pandemic dip. Meanwhile, **Lightspeed Commerce** and **Amazon** stocks have neared their pandemic dip. Investors that were once bullish on e-commerce have started questioning whether e-commerce bottomed.

To find the answer, you first have to look into the stage of recession is the economy in.

### Impact of recession on commerce and e-commerce

What is a recession? A recession is when overall economic activity (trade and manufacturing) falls, and the economy reports negative gross domestic product (GDP) growth. In a recession, rising unemployment or inflation reduces income and consumer spending. This reduces manufacturing and employment, thereby slowing the overall business environment. The effects of recession generally last for months or even years.

Economists have [warned](#) of a mild recession, as the U.S. Fed accelerated interest rate hikes and reduced bond holdings. The Fed's monetary policy tightening will reduce liquidity in the economy, thereby discouraging overspending to ease inflation. But oil prices will remain high, as the Russia-Ukraine war has created an [oil supply crunch](#). High oil prices increase logistics costs and inflation. Moreover, sanctions on several Russian imports have disrupted the supply chain for many industries, like automotive and infrastructure. Alternative suppliers might ease the supply crunch in the medium term, but they might not give the lowest price, adding to inflation.

The first effect of a looming recession is felt in retail commerce as consumers slow their buying. Shopify reported its slowest revenue growth of 22% in the [first quarter](#). Amazon's net service revenue (which includes e-commerce services) fell 15%.

Amazon and Shopify are likely to face a blow because of fulfillment networks and logistics services. They scaled their delivery capacity during the pandemic, and now this capacity is hurting their profits

amid high oil prices.

## Has Shopify bottomed?

This is just the first-quarter result in which there wasn't a significant dip in GDP. U.S. [GDP growth](#) was 6.5% in the first quarter, but the real GDP growth (after adjusting for inflation) was -1.4%. The inflation accelerated in April, and the U.S. and Europe have imposed sanctions on Russian imports. This could put further pressure on consumer spending and GDP.

If a recession is in the cards, it has not yet begun. The second quarter could see a bigger dip in GDP, and the stock market reflects the GDP dip expectations.

Since April, the TSX 60 Index and Nasdaq haven't fallen 9.6% and 31%, respectively, hinting that the tech sector has entered a [downturn](#). E-commerce is one of the hardest-hit segments. The overall stock market could dip 20% in the second quarter.

If you ask, has Shopify bottomed out at \$462, the answer is no. The overall stock market is still in sell mode and could fall by as much as 20%. So, there is more downside, even though Shopify stock is oversold, with a Relative Strength Index (RSI) of 22.

## When should you buy Shopify stock?

Even though the weak economy impacts e-commerce, the segment enjoys secular growth in the long term. As the economy recovers, and inflation eases, people will return to buying online. Until then, Shopify can withstand economic weakness with its net cash and marketable securities of over US\$6 billion. So, Shopify stock is a buy the dip. But at what price should you buy the stock?

I expect another 20-25% dip in Shopify stock to around \$346-\$350 amid the bear market. You can divide your purchase into three lots: the first lot when the stock drops below \$405; the second lot when it falls below \$370; and the third lot if it falls below \$350. This is a good price to buy Shopify stock and hold it for three to seven years to double, or maybe triple, your money.

### CATEGORY

1. Investing
2. Tech Stocks

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