



Industries That Thrive On Recession

by Andrew Beattie ([Contact Author](#) | [Biography](#))



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[Recessions](#) are hard on everyone – aren't they? Actually, just as wars have their [war babies](#) (companies that perform well during war and suffer during peace), recessions have their tough offspring as well. In this article we'll take a look at the industries that flourish in the adversity of a recession and why they do so well when everyone else is struggling to make ends meet. (For related reading, see [Recession: What Does It Mean To Investors?](#) and [War's Influence On Wall Street](#).)

Discount Retailers

It makes sense that, as budgets feel the strain of an economic downturn, people turn to the stores that offer the most for the least. Discount retailers like Wal-Mart may appear to do well at any time, but this is not entirely true. They often suffer in good times as people flush with money buy higher-quality goods at competing outlets. To remain competitive, they are forced to upgrade their product lines and change the focus of their business from thrift to quality. Their profits suffer from either lost sales or less [margin](#) on the goods they sell.

In hard times, however, these retailers excel by going back to core products and using vast [economies of scale](#) to give cheap goods to consumers. Designers and producers of lower-end products also see an upswing as more people jump from brand names to make their paychecks go further. People may not like discount retailers, but in a recession most people end up shopping there. (Learn one way these companies make their money in [What Are Economies Of Scale?](#))

Sin Industries

In bad times, the bad do well. Although it seems a little counterintuitive, people patronize the sin industry more during a recession. In good times, these same people might have bought new shoes, a new stereo or other, bigger-ticket items. In bad times, however, the desire for comforts doesn't leave, it simply scales down. People will pass on the stereo, but a nightly glass of wine, a pack of cigarettes or a chocolate bar are small expenditures that help hold back the general malaise that comes with being tight on cash.

Be warned, though – not all sin businesses prosper in a recession. Gambling, with the exception of the truly troubled gamblers, becomes an extravagance and generally declines during recessions. In fact, casinos do their best trade when the economy is roaring and everyone feels lucky. The most prosperous businesses in this industry are the purveyors of small pleasures that can be bought at a gas station or convenience store. (To find out if it pays pick your portfolio based on ethics, read

[Socially Responsible Investing Vs. Sin Stocks](#) and [Socially \(Ir\)responsible Mutual Funds.](#))

Selected Services

Expect a downturn in the service industry as a whole, as companies and families are willing to do more themselves to save money. A certain class of service providers will see an upswing during hard times though. Companies that specialize in upgrading and maintaining existing equipment and products see their business increase as more clients focus on working with what they have now rather than buying a newer model. (Read [Less Trash For More Cash](#) to learn how eco-friendly practices can be good for your wallet as well as the planet.)

In the [real estate](#) industry, they say renovators hire as builders fire, and this holds true for many other industries as well.

The Statics

In a recession, simply carrying on with business as usual can be an achievement. Pharmaceuticals, [healthcare](#) companies, tax service companies, gravediggers, waste disposal companies and many others are in a category that, while not jumping ahead during a recession, can plod along while other companies suffer. This is simply because people get sick, get taxed and die (not always in that order) no matter what the economy is like. Sometimes the most boring businesses offer the most consistent and, in context, exciting returns. (Read [A Checklist For Successful Medical Technology Investment](#) and [Build Your Portfolio With Infrastructure Investments](#) to learn more about putting your money into these stable industries.)

The Benefits Of Recession

The biggest benefit of hard times is that companies get hurt for inefficiencies that they laughed off in better times. A recession means general fat trimming for companies, from which they should emerge stronger, and that's good news for investors.

One of the best signs is a company in a hard-hit industry that is expanding anyway. For example, McDonald's continued to grow in the 1970s downturn even though restaurants generally suffered as people cooked rather than going out to eat. Similarly, Toyota was opening new American plants in the 1990s downturn when the [Big Three](#) were closing theirs due to falling sales for new cars. (Read more about the 1970s economy in [Stagflation, 1970s Style.](#))

A recession can be a blessing for investors, as it is much easier to spot a strong company without the white [noise](#) of a strong economy. (Read how certain strategies can help you cut through market noise in [Trading Without Noise.](#))

Waiting It Out

Although it is good to know which companies excel in a recession, investing according to [economic cycles](#) can be difficult. If you do invest in these industries during a recession, you have pay careful attention to your investment so you can readjust your portfolio before the economy rebounds, stemming the advances the recession-proof industries have made. (Read more about how to take advantage of market fluctuations in [The Ups And Downs Of Investing In Cyclical Stocks.](#))

Some of the companies performing well in a recession will also perform well in a recovery, and more will change their business to take advantage of it, but many will be passed by their toughened-up brethren that race ahead in [bull markets](#) – financials, technology firms and other faster-moving industries. With the proper timing, however, these industries can provide a buffer within your portfolio while you wait for your high fliers to take off again.

For further reading, see [Four Tips For Buying Stocks In A Recession](#) and [Recession-Proof Your Portfolio](#).



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