

Macroeconomics and grocery stores industry assignment

[Economics](#)



Safely operating in Australia and the brand Of Countdown brand operating in New Zealand (Woolworth, 2012). Moreover, there are 11 supermarkets with the brand of Thomas Dug which are operated in Australia. Second, there are several liquor brands such as Woolworth/ Safely, BBS and Dan Murphy's which can serve different demand for various customers (Woolworth, 2012). Third, there are 599 canopies in Australia with 132 of them are co-brand with Chalet in the petrol retailing business (Woolworth, 2012). Fourth, there are 172 BIG W stores in the general merchandise business serving the every days needs of the customers.

Then, the 294 premium hotels in the hotel division can provide the service of bars, accommodation, gaming, dining and venture hiring (Woolworth, 2012). Finally, there are 15 Masters Stores and 21 hardware stores in the home improvement department (Woolworth, 2012). Latest Events Two Non-Executive Directors Retires: Woolworth announced at 25 July that two Non-Executive Directors who are Redbrick Deane and John Statuary will effectively retire since 31 August. Deane and Statuary once managed human resource strategy, financial management and governance (Woolworth, 201 AAA).

New Woolworth' brand store opens in Indecorously: the new store of Woolworth' brand opens at 23 July located in the redevelopment area in the Indecorously Shopping Center. The new store has more than 3,300 square meters offering fresh seafood, delicatessen and bakery (Woolworth, 201 b).

Current position within the market Table 1: the market position of the WOW (Yahoo Finance, AAA) As can be seen in Table 1, Woolworth ranks top 6 in return on equity and top 5 in PEG ratio. It implies that WOW performs well in <https://assignbuster.com/macroeconomics-and-grocery-stores-industry-assignment/>

the effective growth and cost reduction which gives it good return in the investment.

Woolworth ranks quarterly in the market capitalization and middle in the P/E ratio and revenue & earning growth rate which implies that this company is in a stable maturely growth State. Macroeconomic factors Figure 1: GDP growth in Australia (ARAB, 201 AAA) First, GDP reflects the consumption power of the people in the nation and it will affect their consumption on stores and influence the cash flows of WOW. As can be seen in Figure 1, the GDP growth is in a contraction in the recent year and it seems to be difficult to expand in the future a few years.

Thus the undesirable GDP growth will reduce the revenue of the retailing industry and WOW will also suffers. Figure 2: the consumer price inflation in Australia (ARAB AAA) Second, the inflation (CPI) is also very important. As can be seen in Figure 2, the CPI is in the low level during recent years but it trends to go upward since 2012. The upward inflation will drive the investors to require higher return, while the price-elasticity of consumption goods is small which will increase the revenue if WOW increases the price, so the influence of inflation on the WOW will be smaller.

Figure 3: the interest rate in Australia (ARAB Bibb) Then, interest rate is another vital factor since higher interest rate will decline the present value of the firm for certain future cash flows which will reduce the stock price. As can be seen in Figure 3, the interest rate is low in recent year but the short term rate trends to go down while the long term rate trends to go up.

However, the short term rate is too low and should go up soon. The upward

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interest rate will increase the finance cost of the stores which will reduce the stock price of the WOW. Figure 4: the unemployment in

Australia (ARAB ICC) Finally, the unemployment rate should be concerned to analysis the future macro economy. It reflects the state of economy whether it is at the full capacity. Higher unemployment implies a contraction which will drive down the stock price. As can be seen in Figure 4, the unemployment rate is low in the historical period and relatively high and upward since 2008. The upward unemployment rate will reduce the consumption capacity of the nations which will reduce the revenue of the WOW. Industry factors Woolworth (WOW) operates in the grocery stores industry.

The key heartsickness of the grocery stores will be discussed in the following 4 aspects. Sensitivity to Business Cycle The sensitivity to business cycle of a firm's earning is determined by three factors: sensitivity of sales to the business cycle, the operating leverage and the financial leverage. First, the grocery stores' sales are not very sensitive to the business cycle since their goods are inelastic to price and they can earn profit in spite of the economy contraction. Second, the operating leverage of the grocery stores industry is not large since the fixed cost/ variable cost ratio s not large in this industry.

Finally, the financial leverage is very large in this industry, since the stores often have large payable in account. All in all, the grocery stores industry is known as the defensive industry which is not very sensitive to the business cycle. So the earning of WOW will not be very sensitive to the business cycle.

Permanence and Phase of life cycle The grocery stores industry is likely to a

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permanence industry which will survive in the long run since it provides the basic needs for everybody, while the major threat is the development in online shopping which is also the WOW try to develop.