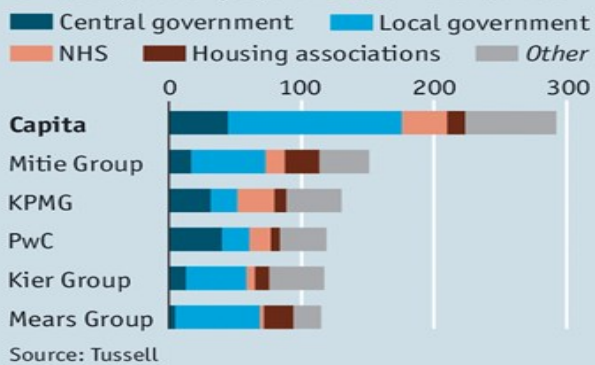


THE LATYMER ECONOMICS BULLETIN

Week Beginning 5/2/18

Contracting, expanding

Britain, outsourcing companies
Number of purchasing departments, Jan 2015-Jan 2018



Capita issues profit warning



Turbulence in US stock markets



A new player in the discount supermarket game

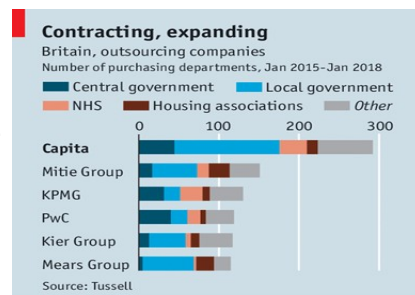
Capita issues profit warning

What's going on here?

In the aftermath of the Carillion collapse, outsourcing giant Capita lost 48% of its value. Capita's new CEO, Jonathan Lewis, issued the profit warning in hopes that any future restructurings and possible redundancies will be better received by investors. This is a strategy referred to as 'kitchen sinking', which involves a firm releasing all of its bad news at once, instead of over time.

Why is it important?

Capita employs over 50,000 people and has won 292 contracts from different public sector buyers. Some of these include being responsible for collecting the TV licence payment, congestion charge, providing blood transfusion systems and recruiting soldiers for the army. Having learnt from the Carillion collapse, we need to take steps to ensure another government contractor doesn't go into liquidation and maybe even think about how beneficial outsourcing is in the long term.



Turbulence in US stock markets

What's going on here?

Over the past week shares on Wall Street have fallen sharply, with the Dow Jones Industrial Average stock index recording sharp declines of more than 1000 points on two separate days. Similarly, both the S&P 500 index and Nasdaq Composite Index posted their worst weeks since early 2016.



Why is this important?

Strangely enough, this turbulence in financial markets could be as a result of a strengthening US economy. The first decrease in the Dow was in response to a labour force survey, showing that US unemployment had reached a 17 year low of 4.1%, something that could translate to markets as a sign of rising inflation. Whilst it can be argued that this may be beneficial for the economy as a whole, a strengthening US economy and rising costs could mean that the Federal Reserve is more likely to halt quantitative easing and raise interest rates more than expected.

A new player in the discount supermarket game

What's going on here?

Tesco, Britain's biggest retailer is planning to set up a chain of discount supermarkets. It is thought that this is largely to counter the recent growth of discount rivals Aldi and Lidl. Tesco is said to be developing a separate brand that would match its discount competitors on price, but have a more limited range of products than its main stores. Tesco has once again started to increase its power in the British food market, as it was only last month that the competition regulator cleared its £3.7 billion takeover of Booker, a wholesaler.



Why is this important?

Data from research group Kantar Worldpanel showed that over the past 12 weeks sales at Tesco grew by 2.6%, whilst sales increased by 16.2% and 16.3% at Aldi and Lidl respectively. The increase in sales for the discount retailers has boosted their market share, albeit at the expense of all four of Britain's largest supermarkets, not just Tesco. Since their accounting scandal in 2014, the chief executive's strategy to rebuild the supermarket group has been centred on increasing food sales, something which could be achieved by actively competing with growing rivals.