**ECONOMY NOTES**

Economies go through a regular pattern of ups and downs in the value of economic activity (as measured by gross domestic product or GDP. This is known as the **"business cycle"** (sometimes you also see it referred to as the "**economic cycle**").

The business cycle is crucial for businesses of all kinds because it directly affects demand for their products.

The business cycle is characterised by four **main phases:**

* **Boom:** high levels of **consumer spending**, business confidence, profits and investment. Prices and costs also tend to rise faster. Unemployment tends to be low as growth in the economy creates new jobs
* **Recession:** falling levels of **consumer spending and confidence** mean lower profits for businesses – which start to cut back on investment. Spare capacity increases + rising unemployment as businesses cut back and reduce stocks
* **Slump / depression:** a prolonged period of declining GDP - very weak consumer spending and business investment; many business failures; rapidly rising unemployment; prices may start falling (deflation)
* **Recovery:** things start to get better; consumers begin to increase spending; businesses feel a little more confident and start to invest again and build stocks; but it takes time for unemployment to stop growing

Every business is affected by the stage of the business cycle, but some businesses are more vulnerable to changes in the business cycle than others.

For example, a business that relies on **consumer spending** for its revenues will find that demand is closely related to movements in GDP. During a boom, such businesses should enjoy strong demand for their products, assuming that the products are actually what customers want! But during a slump, the business has to "ride out the storm" – suffering a sharp drop in demand.

During the housing-market inspired boom of the early 2000's, many retail and consumer goods businesses took advantage of the boom. Consumers were prepared to take on significant personal debt in order to finance their purchases. However, the sharp economic downturn during 2008 and 2009 saw many businesses suffer sales falls of between 10-30%. Some did not survive – their fixed costs were just too high to be able to remain viable.

Businesses whose fortunes are closely linked to the rate of economic growth are referred to as "**cyclical"**businesses. Examples include:

* Fashion retailers
* Electrical goods
* House-builders
* Restaurants
* Advertising
* Overseas tour operators
* Construction and other infrastructure firms

By contrast, **some businesses actually benefit from an economic downturn.** If their products are perceived by customers as representing good value for money, or a cheaper alternative than more expensive products, then consumers are likely to switch. Good examples that were featured in the UK media during the previous recession included:

* Value retailers (e.g. Aldi, Lidl, Netto)
* Fast-food outlets (e.g. Dominos, Subway)
* Domestic holidays (e.g. B&Bs and holiday cottages)
* Chocolate – for some reason, chocolate sales always increase strongly during an economic downturn!