

Economic indicators applicable to general electric (ge)



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Economic Indicators Applicable to General Electric (GE) Domestic Operations

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Relevant Economic Indicators

Economic indicators are used to predict, plan and navigate thru the complex activities of the business environment. General Electric (GE) produces diverse products and services from a variety of different business segments, so the company must utilize an exhaustive list of economic indicators in its decision-making processes. The scope of this overview is to analyze a representative group of those indicators that relate to the domestic activities of GE:

1. Business Tendencies and Surveys
2. Consumer Confidence Index
3. Industry Data by segment
4. Consumer Price Index
5. Producer Price Index
6. Purchasing Power Parities (PPP)
7. Political Forces
8. Demographic Assessment

Business Tendencies and Surveys

There are vast examples of business tendencies for the multi-segmented corporation of GE, but to consider just a couple, we can look at the (2) business trends that are driving GE's Aviation business segment:

1. Air Travel Demand from Emerging Markets-Travel demand from emerging markets in other countries like China, India, South East Asia,

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and Africa will provide growth opportunities for commercial aviation estimated to be between 7-9%. Since GE's engines are the ones most widely used in commercial aviation jets, they will be in high demand.

2. Shift of MRO (Maintenance, Repair, and Operations) from OEMs

(Original Equipment Manufacturer) to suppliers. The trend of the past few decades has shown that customers have started to rely more on individual suppliers to service individual parts as opposed to the single shop of OEMs. This is a huge opportunity for GE since it has a relationship with all the OEMs that will give it a competitive edge to capture share in this part of the market. (Forbes, Trefis Team, 2012)

GE funded an initiative entitled the GE Global Innovation Barometer, which was conducted by StrategyOne, an independent research and consulting firm. 3, 100 senior business executives were surveyed in more than 25 countries and the results were helpful in determining the global and domestic tendencies of multiple industries. Key determinations could be made about the state of innovation, partnerships, business models, government policies, and workforce preparation. (General Electric, 2013)

Trends in healthcare garnered from GE's Healthcare Industry Research Update offer unique perspectives and analysis of the needs of the Health Care Industry in the United States. Since GE is a producer of medical equipment and supplies, the trends can be pinpointed and GE can base its productive strategies on the knowledge gained. Some of GE's medical products include Mammography systems, Advanced Visualization via computers, Anesthetic Delivery systems, Diagnostic ECG, Contrast Media, Clinical consumables, and supplies. (GE Capital, 2014)

Consumer Confidence Index-CCI

“ The idea” behind the consumer confidence index (CCI) “ is that the more confident people feel about the stability of their incomes, the more likely that they are to make purchases rather than save their discretionary income”.

(McWhinney, 2013) This is important for all of the business community, but for GE, the profits from sales of appliances needed in newly constructed homes would most certainly be affected. Consumers will not likely build a new home, let alone replace older appliances, if they are concerned about their income. GE surely benefited in 2012 when the consumer confidence rate was “ at its highest level in five years” (Housel & Smith, 2012).

On the other hand, consumer confidence and GE took a hit when the U. S. Consumer Bureau ordered GE Capital Retail Bank and one of its subsidiaries, CareCredit, to refund up to \$34. 1 million to customers who it said were misled about healthcare credit cards. The cards were supposed to be interest-free, but were actually accruing interest that could kick in at the end of a promotional period. Incidents of this type will motivate GE to implement a clearer marketing strategy for its health care credit card in the future.

(Reuters, 2013)

Industry Data by segment

GE's business segments include:

- Commercial Finance
- Consumer Finance
- GE Capital Aviation Services

- Power & Water
- Energy Infrastructure
- Healthcare
- Energy Financial Services
- Appliances & Lighting
- Real Estate
- Transportation
- Aviation
- Energy
- Oil & Gas

(CSI Market)

This level of diversity requires information from many industry segments. Factors regarding interaction between the segments may be equally, if not more important, for GE to strategize across its wide business base.

Without comparing Industry and competitor growth rates, along with market share percentages, it would be impossible to gauge GE's level of success.

The results often initiate further analysis to determine what is or is not working in a particular industry.

Consumer Price Index-CPI

“ The Consumer Price Index is a measure of the weighted average of prices of a basket of consumer goods and services. This measurement of price changes is from the consumer's perspective and is used to indicate the rate of inflation or deflation in the market.” (Investopedia)

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GE may use the CPI index increases to invest in inflation-sensitive products such as energy or inflation-indexed bonds. (Investopedia)

Producer Price Index-PPI

“ The Producer’s Price Index is similar to the Consumer Price Index but it is from the seller’s perspective rather than the consumer. It is a family of indexes that measures the average change in selling prices received by domestic producers of goods and services over time.” (Investopedia)

Since “ PPI is the most accurate indicator of future CPI” and it can “ move the markets positively, it is very useful for investors and industry alike when analyzing potential sales and earnings.” (Investopedia)

Purchasing Power Parities (PPP)

“ Purchasing Power Parity (PPP) expresses the idea that a bundle of goods in one country should cost the same in another country after exchange rates are taken in to account.” (Investopedia) However, if goods can be purchased for fewer U. S. dollars in another country, rather than at home in the U. S., then GE will want to consider that exchange rate effect when buying its materials for production.

Obviously, the costs of transporting the materials will have to be taken into effect as well. If the savings is substantial enough, then large amounts of goods may be purchased, but only if they can be stored safely and do not have the risk of becoming obsolete.

Political Forces

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Political forces controlling tax rates affect a large corporation like General Electric (GE) in a positive way due to its ability to master the system.

Although GE is America's largest corporation, it pays very little taxes, if any at all, due to its strategies in avoiding the IRS tax laws and by focusing on lobbying activities.

Over the last decade, G. E. has spent tens of millions of dollars to push for changes in tax law, from more generous depreciation schedules on jet engines to “green energy” credits for its wind turbines. However, the most lucrative of these measures allows G. E. to operate a vast leasing and lending business abroad with profits that face little foreign taxes and no American taxes as long as the money remains overseas. (Kocieniewski, 2011)

If the political climate changes and politicians begin to agree on targeting corporate welfare programs, or excessive tax loopholes like those that GE enjoys, then GE will likely orchestrate another strategy for avoidance. Being that its tax department employs former IRS and Treasury department officials, the department is focused on increasing profits from tax credits, rather than reducing taxation expenses as a cost center normally operates. (Kocieniewski, 2011)

Demographic Assessment

Demographic assessments of age trends in the population will be important in predicting the level of sales for medical equipment and other health care type products. In the U. S., the baby boomers are retiring at a high rate, so there will likely be a strong demand for medical equipment. This will drive <https://assignbuster.com/economic-indicators-applicable-to-general-electric-ge/>

the focus at GE to create innovation and increase productivity in that segment.

There will be approximately one billion new people living on the planet in the next decade, the large majority born in developing countries, and all with needs for basic infrastructure, healthcare, and consumer finance. Growing populations around the world, emerging middle classes, aging baby boomers in the U. S. — these are all changes in demographics that create opportunities for GE's businesses. GE Healthcare is designing, engineering, and building medical diagnostic products tailored to the local market places. (General Electric GE, 2007)

Goals for the Future

Since “ GE is the only company listed in the Dow Jones Industrial Index today that was also included in the original index in 1896.” (General Electric (GE), 2014) It seems that this company has some strong staying power. It is difficult to focus exclusively on the domestic areas of business for GE since it is such a diverse global entity, but some of the areas of their SWOT analysis (found on the next page) should be highlighted for future goal setting. Since GE has a high level of debt, it may seek to sell off some of its segments in order to reduce its overall debt. The company should assess its areas of strength and determine how those positive elements of their business can assist them to eliminate their weaknesses and threats. Since GE is dependent on third parties for raw materials, they may want to utilize their robust research and development capabilities to develop alternative materials or to seek out production of alternative products where the raw

materials are readily accessible to the company. Otherwise, it would be a wise decision to analyze the overall climate surrounding their relationships with those third parties and create contractual partnerships that build mutual respect and value between the parties. It could pay to nurture those relationships.

To take advantage of the opportunities within the energy and healthcare sectors, it would be prudent to invest in environmentally safe and competitive production methods for their products. This may have the second hand benefit of reducing their potential exposure from government regulation of environmentally unsafe practices.

GE is a company that may be too big to fail, like the banking industry, but it should keep in mind that the taxpayers are also the consumers of their products. Negative consumer opinions about their avoidance of taxation will certainly hurt the integrity of any company, even a giant in the corporate world like GE.

Brief SWOT Analysis

Strengths Weaknesses

Industry S

recognition Low Debt

n Rating

Diversified High

product indebtedness

portfolio ss exposes

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and

revenue

stream

provides

cross to credit

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Robust parties for

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capabilitie

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Increased Environmen
Demand tal and
for other

Commerci Governmen
al t

Airplanes Regulations

Increased Aggressive

focus on

energy

sector

New competition

contracts

to enhance

top line

growth

(MarketLine, 2013)

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