

Economics report

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Macroeconomic factors that affect the automotive industry

Automobile industry as an economic activity in most countries is faced with many macroeconomic variables that either influence its performance directly or indirectly. The some of the macroeconomic variable are analyzed as follows; Interest rates, which is a representation of the cost of borrowing influences the rate of investment in various industries. When interest rates increase, the loans become expensive thereby adversely affecting the automotive industry. Fewer vehicles will be bought thus; the dealers experience reduced sales revenues. For instance, the rise of interest rates in china from 2. 25 percent to 2. 50 percent led to the reduction of automobile demand.

The automobile industry's production rate has a trend that concurs with the Gross domestic product trends. When its production is low, it is as a result of a decline in the country's GDP. This was the situation during the 1970, 1975 and 1982 troughs which created the same cyclical effect to the industry. This, therefore, affects this industry directly. Unemployment rates have an indirect effect in the automotive industry though it can be looked upon at different ways. If unemployment rates are high, the automotive industry could have a large pool of labour which it can employ and as it is known, when labour increases, production tends to increase holding factors like skills and technology present constant. On the other hand, the increase in unemployment has a positive relationship with the recession which also relates to reduced automotive production. These two aspects affect automobile industry both directly and indirectly.

Inflation has a negative direct impact in the industry. Inflation is the general

increase in prices levels in an economy. When automobile's prices increase beyond the consumer's willing threshold, there will be reduced sales revenue. This occurs when the country is at a high inflation spell. Thus, the industry suffers in terms of sales volume. This can be well illustrated by the following graph.

D

C

A2

A1

CD

Inflation will make a customer to move to a lower indifference curve A1. Thus, his purchasing power will be reduced to budget line CC from DD. The level of satisfaction to the customer will decrease thus not much willing to purchase a different automobile with lower utility level than what he could have purchased when there was no inflation. Therefore, inflation can be said to reduce the marginal propensity of the customer, in regard to a particular automobile.

Globalization has a direct positive effect on this industry. It creates a wide market whereby the industry can sell its products, increasing its sales revenue. A dealer like Toyota, Japan, has gained fame all over the world due to globalization which made it a multinational company. If it only concentrated on the local market, it would not have gained the present market share. This has made the company products have high demand. Labour policies have a direct effect on this industry. These policies could be in terms of supply or costs. If the labour costs are increased, the industry's

overhead costs will increase thereby cutting back on their profits thus reducing its production. Economic changes will directly affect the industry as it operates within that country's economic atmosphere. If it changes favorably, the industry could either have a constant production or experience an increment. If there is an unfavorable change, the industry will have a direct production reduction.

Fiscal policies have an indirect impact on the industry. In times of recessions, the government is forced to use expansionary fiscal policy such as a reduction in taxes and an increase in government spending. This creates an increase in aggregate demand which can increase the automotive industry's sales revenues.

References

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