

How macroeconomics affects managerial decision making essay samples

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Economics

Introduction

The economic outlook of the world in 2011 and 2012 was bleak. The International Monetary Fund prophesied an uncertain economic recovery in April 2011. The reasons for uncertainty in 2011 were two fold: slower recovery in the advanced economies of the world and an increase in fiscal and financial insecurity (IMF, 2011). The situation improved through 2012, but risks remained. The Euro went through a period of acute crisis in the later part of 2011. Market worries about fiscal sustainability in Italy and Spain led to a sharp increase in sovereign yields, resulting in decreased confidence and slowing down of growth. Strong policy interventions were successful in arresting the decline. The arrested decline, combined with improving US economy, promised cautious optimism (IMF, 2012).

In this milieu, companies across the world were faced with the choice of either expanding during the period of uncertainty or to rationalize expansion plans and await clarity. Two examples are chosen from the steel industry to reflect the divergence of options - Nucor, a domestic company, and Arcelor Mittal, a global conglomerate.

Nucor – Expanding in Tough Times

Nucor has a strategic intent to deliver improved returns at every point of the economic cycle. The company has historically expanded in periods of economic downturn, to leverage growth during the periods of economic boom, delivering ‘higher highs and higher lows.’ In keeping with its philosophy, Nucor responded to the downturn in 2011 by preparing for

growth. It optimized its operations, expanded through greenfield projects, sought international joint ventures and grew through strategic acquisitions. It commenced construction of a Direct Reduced Iron (DRI) facility in Louisiana in 2011 – a project that finally became operational in 2014. It created a joint venture with its Italian subsidiary (Nucor, 2011).

Arcelor Mittal – Reacting Conservatively

In contrast to Nucor, Arcelor Mittal's reaction to the global economic uncertainty in 2011 was more conservative. Arcelor Mittal, with a large quantum of operations in Europe, feared that a collapse of the Eurozone would push the global economy back into recession in late 2011. The risks in the Eurozone and the overall weak financial sentiment spurred Arcelor Mittal to reconsider its capital expenditure programs. It paused all growth projects in the steel business. It halted expansion plans in Brazil as inflation and currency appreciation had decreased competitiveness in the Brazilian economy. In Europe, it decided to close its facility in Liege, Italy.

Analysis

While, on the face of it, reactions of Nucor and Arcelor Mittal were different to the prevalent economic conditions, the contexts of both companies need to be considered before arriving at any conclusions. Nucor is a domestic company. It has limited linkages to Europe and Asia. Its chief challenge has always been lower steel imports from Chinese companies. As Nucor was not as enmeshed in the economy of Europe as Arcelor Mittal, it could take a decision to expand in the American market. Arcelor Mittal, on the other hand, had a more global presence. It faced larger imponderables due to the global

sluggishness from different regions. Its decision to be conservative can be seen from the light of the added complexity in which it operated.

Recommendations

Nucor's example gives a clear indication that when feasible, an element of risk taking in economic ventures would yield rewards. Nucor definitely took a risk in expanding during economic uncertainty, and profited from it.

However, the model of expansion in a downturn cannot be taken as a one-size-fits-all rule. The example of Arcelor Mittal provides the suitable counter-example, demonstrating the logic of prudence during a period of global uncertainty. References

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