The macro economic forecasts economics essay

Businesses are inevitably affected either positively or negatively by changes in the macro-economic environment in which they operate. Our project will focus on Netflix Incorporation, which is one of the largest firms operating in the US market. The US market is currently facing an economic crisis and this poses a major threat on the attainment of the targets that have been set by the management of Netflix. Changes in the following macro-economic factors may affect the performance of Netflix: inflation, levels of unemployment, changes in the real and the nominal GDP, changes in the interest rates levels and changes in the import and exports levels. Our project will concentrate on the forecast between the month of January and June 2013.

According to the forecasts made by Financial forecast centre, the real gross domestic product will remain constant for the first three months, that is until March 2013, and will then decline for the other quarter until June, 2013. The nominal GDP will follow the same trend as the real GDP and will decline and remain constant in that position until the end of the second quarter. The unemployment rates are expected to decline in the first three months, however, in the last three months until June, 2013 the rates are expected to start rising. The inflation rates are expected to move in the negative direction in the first three months. However, in the last three months until June 2013, the rates of inflation will move in the positive direction and increase consistently until June 2013. According to the Financial Forecast centre predictions, the banks' lending interest rates will remain constant throughout the six months period of our forecast. Based on the above forecasts of these macro-economic factors, we can predict that the financial

performance of Netflix will be negatively affected. Our project will analyse these implications of the macro-economic factors in details.

Notes on the above graph

The X-axis represents the months for the various years from December 2010 up to June 2013. The periods are organized into annual quarters (that is January to March, April to June, July to September and October to December) for each year.

The Y-axis represents the per cent of the real GDP growth rate for each year (that is 0. 5, 1, 1. 5, 2, 2. 5 and 3).

The above figure exhibits the growth in the real GDP for the US market. The GDP growth rate as observed from the above trend portrays a downward trend. The GDP growth in January 2013 has declined by 0. 7% (1. 5-. 8) compared to that of December 2012. The GDP has been fluctuating over the past two years. Between January and June 2011, the GDP growth rate remained relatively the same. In July 2011, the rate declined slightly by about three per cent. In September 2011 the rates increased slightly by about the same rate of 0. 3%. In January 2012, the growth rate increased by about 0. 5 per cent compared to the previous quarter that ended on December 2011. In April 2012 the rate declined slightly by about 0. 3%. In July 2012 the rate increased by about 0. 5%. In the next quarter (July 2012 to September 2012), the GDP growth rate declines by one per cent. In October 2012, the rate declines by a further 1% compared to the previous period. During the first quarter of our forecast(January, 2013), the rate decreases by 0. 7%. In the fourth month of our forecast period (April 2013), the rate

declines slightly by about 0. 3% compared to March 2013. The rate remains constant until the end of the forecast (June 2013). The negative trend in the growth of GDP implies reduced economic and investment activities in the US economy. This translates to less employment in the economy, less borrowing and lending activities and overall decline in the growth of the economy. The per capita does not grow and hence the economic power of the population declines. A reduction in the real GDP implies that the purchasing power for the population is reduced and hence there is less money available for the citizens to purchase the goods. This signifies a likelihood of a reduction in aggregate demand for the total output of the goods produced by the firms in the state. This poses a threat to the demand of goods produced by Netflix. The changes in this parameter are crucial in the financial performance of the firm. Due to the reduction in the populations economic power, the revenues generated from the sale of Netflix will be affected negatively. This is because the products offered by Netflix are not basic and thus follow an elastic demand curve. A negative change in any of the factors affecting their demand significantly affects the demand of the products. Another aspect in which the factor affects negatively on the performance of Netflix is due to the economic downturn the cost of inputs is likely to increase. This is because less investors/producers are producing hence there is lack of variety and less competition that is reflected in increased price of inputs. This will lead to a rise in cost of goods produced by Netflix that will result to a decline in the margin gross profits realised by Netflix in the long run. The impact of this negative change in the growth of GDP will be reduced profits for Netflix.

The X axis represents the various months (January 2011 to June 2013)

The y-axis represents the per cent of Consumer price index change for each period.

The above graph shows an analysis of the US inflation rate. The inflation rate has been declining for a significant period in the previous two years. The rate rose steeply in the first quarter of 2011. In June 2011 the rate dropped slightly by about 0. 1%. In the third quarter of 2011, the rate increased constitently until August 2011. Since August 2011 the inflation rates declined but at varying magnitude until June 2012. The inflation rate started rising in July 2012 until September 2012. Since September 2012, the rates have been declining until March 2013. The rate is expected to continue declining slightly in the fast first three months, which is until March 2013. However, after that, the inflation rates are expected to start rising continuously.

The decline in the inflation rates in the first phase of my forecasting period is a positive sign. Low inflation rates enhance the economic transaction as the currency is strengthened. This condition also leads to increased exports and decreased imports thus the country secures a favourable BOP position and a strong currency. High inflation rates, as depicted in the last three months, signify a negative sign for the economy as the level of imports is likely to increase leading to an unfavourable BOP position and consequently negatively affecting the exchange currency rate of the country. Inflation rates affects the operations and financial performance of Netflx. When the inflation rates are high, the purchasing power of the local currency declines and the products of Netflex also increase. This means that the cost of similar products to those of Netflix become more cheaper in other foreign countries shifting the demand of their products to foreign competitors. This will lead to

a reduction in the demand of Netfle and eventually reduced revenues for Netflex. The increased inflation may also be reflected in increased costs of goods for Netflex. Assuming that Netflex acquires some of ite inputs including labour and other raw materials from foreign countries, the cost of operations will rise. This is based on the weakened local currency of US based on the high inflation rates. Netflex will require high amount of the local currency to obtain other foreign currencies and be able to trade for inputs from their country. This will lead to increased cost of operations and cost of goods. This will impact negatively on the gross profits and total net profits realised from the operations. Another negative implication that high inflation may have is on the valuation of the stock for Netflex. High inflation leads to a reduction in the currency value of the US currency and an overall country's' negative BOP position. During valuation of stocks in the regional stock exchange or international stock markets, the above parameters are taken into consideration. Hence, the value of Netflex will be lower which is a negative sign to international investors considering investing in the company. This may lead to less demand for the stocks and shares of Netflex. The share price and other stocks value for Netflex could go down due to the above negative change in inflation.

The X-axis reflects the various months of the period under analysis(January 2011 to June 2013).

The y-axis reflects the per cent age of unemployment rates.

The above graph exhibits the unemployment levels in the past and the forecasts made for the six months in our prediction. The unemployment

levels declined significantly in the year 2011. From January 2011 to March 2011 the unemployment levels declined slightly by about 2%. In April 2011 the employment levels increased slightly by about one per cent. From May, 2011 to December, 2011 the levels continued declining steadily. In the year 2012, there was a decline in the unemployment levels although of a less magnitude compared to that of 2011 until April 2012. There has been no consistent trend in that year but the levels have been fluctuating in that year. The employment level declined slightly by approximately 0. 3% in January 2013 compared to December 2012. The rate has been varying by relatively the same per cent in all the months in the forecast period. In January 2013, the unemployment levels reduced by 0. 1% compared to February, in February the rate are forecasted to decline by 0. 1% and in March, the rates are expected to decline by 0. 1%. However, this trend is expected to reverse and start increasing. In April, the unemployment levels are expected to rise by 1% compared to March 2013. In May 2013, the levels are predicted to increase by 1% and in June 2013, the levels are expected to increase by 1%. The increase in the level of unemployment implies that the purchasing power of the population is reduced. This is a threat to the future sales of the firm as the aggregate demand of the population is likely to reduce due to the reduced purchasing power. The increase in the level of unemployment is important as it may have various effects on the operations of Netflix. First, based on the economic law and holding all things constant, the lower the demand the lower the price, the cost of labour will reduce. This means that the cost of acquiring labour for Netflex will be down and a greater proportion of the population will be willing to work under reduced rates. This will reduce the overall cost of labour for the firm cutting down the

overall operation costs. This will lead to an increase in the gross profit profits and an increase in the net profits of the organization. On the other hand, the increase in the unemployment levels will have negative consequences on the financial performance of the firm. This will because the purchasing power of the majority of the population will be reduced. Putting into account that the products offered by Netflex are not a necessity most people will prefer to prioritise the necessities such as food, clothing and shelter with their limited financial ability. This will lead to reduced demand for Netflexs' products. Thus, in the long run, there will be a decrease in the total revenue and net profits from the operations of Netflex. The reduction in the revenue is greater compared to the less reduction in operation costs as the proportion of the population is small compared to the number of employees hence the increase the increase in the unemployment levels will impact negatively on the profits of the organization.

The X-axis reflects the various months of the period under analysis (January 2011 to June 2013).

The y-axis reflects the per cent age of nominal growth rates

The graph depicts the value of per cent change for the growth in the nominal GDP. The general trend from the above graph is a declining trend since March 2012. In April 2011, the nominal GDP increased slightly by about 0. 1%. The rate however declined slightly and constitently in the next two quarters of 2011. In January 2012 the percentage change in the nominal increased by about 0. 5%. In April 2012, the rate declined by about 0. 6% and the growth rate prevailed at that point until June 2012. In July 2012, the

growth rate increased by about 0. 3% and remained constant until September 2012. In October 2012, the growth rate declined significantly by about 0. 7%. In January 2013 the growth rate increased by about 0. 5%. The rate however declined by approximately 0. 6% in the second quarter (April 2012 to June 2012). The growth rate increased by about 0. 3% in the second last quarter (July 201 to August 2012). For the period that we are forecasting, the nominal GDP rate remains constant for the first three months (January 2013 to March 2013). In April the growth rate declines by 0. 3 per cent and remains at this level throughout the forecast period until June 2013. The nominal GDP reflects the GDP before it has been adjusted for inflation and other relevant economic parameters. The decline in the nominal GDP implies reduced economic purchasing power for the general population. This is likely to reduce the aggregate demand from the whole population.

The X-axis reflects the various different months for the period covered by the analysis (January 2011 to June 2013).

The y-axis axis reflects the per cent of mortgage rate in the period of analysis.

In our analysis, we shall assume that the rate represents the change in the long-term interest rates of the American. The above graph shows the trend of the long-term interest rates in the American market. The general trend is a declining trend in the past two years. The trend has only been increasing slightly at very few intervals but generally, the trend has been declining. In February 2011 the rate increased slightly by 0. 2%. From march to May, 2011 the rate declined slightly by a consistent per cent age. From July 2011

to February the same year, the rate continued declining at a slightly lower rate. In May 2011, the rate increased slightly by about 0. 1%. From February 2012 to June 2012, the rate continued declining slightly. In July 2012, the rate increased slightly and continued declining. In December 2012 the rate increased slightly by about one per cent. From January 2013 until April 2013 the rate continued rising slightly. In February 2013, the rate increased by 0. 35 per cent compared to January the same year. In March 2013 the rate increased by 0. 3125% compared to February. In April 2013 the rates increased by 0. 495%. In May 2013, the long-term interest rate increased by 0. 209%. In June 2013, the long-term interest rate declined by 0. 156%. The increasing long-term interest rate is a negative sign to the growth of the economy. This is based on the fact that there will be reduced borrowing from the majority of the population thus a reduction in the levels of investment thus reduced economic development. This implies reduced employment levels and hence reduced purchasing power. Hence the aggregate demand and demand in the economy which reduces and the level of economic activity. This is a negative sign for the performance of the economy and is a threat to the good performance of the firms in the US market. This has various implications on the performance of Netflix. First, due to the increased interest rates the level of borrowing will decrease and consequently the investment level. There will be reduced economic activities. Due to the reduced investment and activities and economic activities, the level of employment will reduce. This will negatively impact the purchasing power of majority of the population. This will be reflected in declined demand for the company's products consequently leading to reduced revenues for the company. This will reduce the net profits of the company. Reduced

investment will also raise the cost of inputs and materials for the company. This is due to the reduced availability and limited choice for the firm in acquiring its inputs. Therefore, the firm will be forced to import some of its inputs or acquire them at relatively higher prices from the limited suppliers. The basis of the argument is that competition leads to better prices and more effectiveness in business, holding all other factors constant. Therefore, the costs of operation will increase. This will reduce the profit margins of the firm and the net profits in the long run. The higher interest rates will reduce development and purchases of houses. The greater proportion will continue living in the rented houses. This may have impact in both the short run and in the long run. In the short-run, the demand will increase. This is based on the fact that majority of the population will be having a lot of money to spend as they have less commitment towards servicing the loan. This is likely to increase their consumption and may hence they may direct a proportion of their consumption to the products of Netflix. This will lead to an increase in the profits of Netflex.

The X-axis reflects the various different months for the period covered by the analysis (January 2011 to June 2013).

The y-axis axis reflects the level of exports, which are in billions of US dollars.

The above graph the actual and forecasted export for the Us market. The level of exports is a significant component in determining the BOP position, which has significant implications in the economic operations of the country. During the first quarter of 2011, the level of exports increased by around 4%.

During the second quarter of 2011, the level of exports further rose by about 3%. In the third quarter of the same year, the levels rose by about 1%. In the fourth quarter of 2011, the exports declined slightly by less than one per cent. In January 2012, the levels of exports increased slightly by 1% and the level remained constant over that period. In the second quarter of 2012, the levels of exports increased slightly by approximately 1%. During the third quarter, the levels of exports increased slightly by less than 1%. In the last quarter of 2012, the import levels declined by about 1% and remained at that level until January 2013. In February 2013 the level of imports declined by about 1%. In February 2013 the level of exports declined slightly by about 1%. The forecasts depict a negative indication for the economy of the country. A decline in the country's' export imply a reduction in the demand of the Us product in the international market. This trend leads to an unfavourable balance of payment, which is unsuitable for economic progress, and operations of firms in the country. This macro-economic parameter is important as it affects the financial performance of Netflix. First, when the level of exports decreases the BOP position of the country will be affected negatively. This will weaken the local currency of the country. This implies that when Netflex is importing its imports it incurs more to convert the dollar into other currencies thus the imports become more expensive. This increases the cost of inputs and cost of goods for Netflex. This translates to reduced gross profits and net profits. Secondly, it reduces the amount of profits realised on exports sold by Netflex. Since the dollar currency has weakened in comparison to other currencies, the sales of Netflex after translating them to Us dollar currency are significantly lower. This reduces the net income realised by Netflix. Another effect of the

decrease in the level of exports is that the country's products become cheaper to other countries increasing their demand. When the level of exports reduces and the BOP position is unfavourable, the currency weakens as explained earlier. This attracts consumers from other foreign countries with stronger currencies compared to the US as the goods are cheaper from their perspective. This leads to increased level of demand for Netflix translating to increased revenues and net profits in the end.

The X-axis represents the months of the period of our analysis.

The Y-axis represents the level of imports of goods and services in Us in millions of dollars.

The graph shows the past trend of the US imports and the forecasts for the same in the six months period. In the second quarter of 2011(April to June 2011), the exports increased by about 2%. In the second last quarter of the same year, the import levels increased slightly by less than 1 per cent. In the last quarter of this year (October 2011 to December 2011), the imports increased slightly. In the first quarter of 2012, the imports increased slightly further by about one per cent. In the second quarter of 2012(April to June 2012), the imports increased by a very minor per cent age. In the third quarter of the same year starting from July, the imports declined slightly by 1%. In the last quarter of the year (October 2012 to December 2012), the imports increase slightly by a very small per cent. Generally, the rate has been fluctuating up and down in the past two years. According to our forecasts, the imports will decline slightly in the first quarter of 2013 by about one per cent.

In the second quarter of 2013, the imports will continue declining further by a small difference of about one per cent. The direction of imports is crucial as it affects the economic conditions. An increase in the imports is unfavourable for any economy as it affects the currency of a country negatively and leads to its weakening. A high level of imports implies that the demand for goods produced by other countries is higher than the demand for goods supplied locally. This reduces the aggregate demand for the local production. An increase in the level of imports also affects the balance of payment position for a country negatively. Our above forecast hence portrays a positive sign concerning the demand for goods produced by the American industry. The decrease in the level of imports has several implications on the financial performance of Netflix. The decrease in the level of exports will lead to a favourable BOP position and consequently the strengthening of the Us currency. This will enable Netflix to acquire its imports of raw materials and inputs from other foreign countries more cheaply. This will lead to reduced costs of raw materials and costs of goods for Netflix. This will lead to increased gross profits and eventually higher net profits for Netflix. Secondly, it leads to increased revenue for Netflix in case of foreign sales. This is because once it translates its revenue from foreign trade using its stronger currency, the value realised after the translation will be higher. This translates to higher gross profits and higher net profits in the long-run.