Consequences of consumer spending falls

This essay will briefly outline the main consequences of fall in consumer spending during 2008 and 2009 for both the economy as a whole and Coliseum. Equally this report discusses about the government response to this situation and the effect it may have on the organisation.

The fact is that economics affects our daily lives in terms of local, national and international economic issues, variation in exchange rates, unemployment, rate of inflation, interest rate changes, balance of trade, economic recessions or the effects of globalisation.

According to Griffiths (2004) one of the factors that determine the economy is the decline in consumer spending. One of the most important determinants of consumer spending is the amount of disposable income of the household. Among the most important factors negatively affecting consumer spending are the expectations of consumers, their level of debt, and wealth of households. Consumer spending accounts for about two-thirds of all spending in the economy (Skousen, 2007). The families provide labor to firms and these in turn offer goods and services for consumption. The government through policy controls the economy by influencing the overall level of consumption expenditure. If the level of consumer spending is high, the economy will experience high levels of output and employment, so there will be a boom in the economy. As Horny (2001) says, if the level of consumer spending drops, the level of output and employment will decrease and therefore the economy will stagnate and it makes decline in price levels. This is a serious economic problem because of lower prices if costs are constant and wages, companies get fewer benefits, and then reducing investment and employment. This entails a real vicious circle as there are fewer jobs with less income and fewer returns to make purchases that reduce profits and contains deflation.

The deflation can trigger a vicious circle: merchants have to sell their products to at least cover its fixed costs (meaning that the price is not enough to pay variable costs), so prices fall. With prices falling across the board, demand decreases more, because consumers understand that not worth buying if tomorrow will be even cheaper. On inflation, however, the opposite happens, because consumers prefer to buy before the long-term assets, in anticipation of price increases. Given this vicious circle of deflation becomes a cause and effect of lack of circulation of money in the economy because they all prefer to retain it. In the end, the economy collapses, since industry cannot be sold to its products and only gets lost (Sloman, 2004).

Against this phenomenon, the government should only take " stimulus" to decrease the price of money, ease of access, create and promote employment policies such as subsidies to companies for recruitment, lower taxes to them and although not all economists agree on this point, create a stage of liquidity in which it is possible to create inflation, only this is able to stop deflation, and this (inflation) unlike the first, is controlled and maintained sound economic policies (BBC, 2009). Dobson (1999) mentions, that the breakeven point of annual inflation rate is around 2% which ensure chance to have a percentage increase in consumption, thus generating a flow circulating that if such an impact in a balanced way in all production factors, generate a sustained annual economic growth.

Interest rates are the price of money in the financial market. A relatively high interest rate tends to reduce borrowing and spending, therefore, the interest rate is a means of influencing economic activity. Inflation tends to raise interest rates, but one cannot infer that reducing interest rates reduce inflation. Moreover, the interest rate is the price associated with the changing demands made to the output of the economy, a time period to another (Hormer, 2005). The Bank of England has lowered interest rates from 6. 0% to 0. 5% (Bank of England). The savings offset less with low interest rates because the bank gives less interest on savings. That makes them relevant to invest those savings into investment variables (companies) or simply spend it. Or government can increase in public spending by lower taxes and increase transfers. That means more money to spend in private hands, and a boost to consumption. This would put more money in circulation (the interest rates are cheaper, and compensates debt and people tend to consume more).

As Choppin (1991) says the recession creates excellent opportunities for Coliseum to steal more market share from more expensive competitors. Where consumers are not as sensitive to the image of a name brand, are less concerned about potentially compromising on quality. Another opportunity for Coliseum is the attraction of professional excellence. In times of economic recession, many companies that have financial problems which inevitably must dispose of professionals who generate more costs, which often have much experience, knowledge of retail markets, customers, contacts, etc.. And therefore is a great opportunity to attract professionals who have already proven their expertise in the field of business. As example, Asda, a British supermarket chain, is building 14 new stores and hiring 7, 000 new employees (Telegraph, 2009). For Coliseum is important to have a strategic plan (and their respective contingency plans) for the strategy to balance between short and long term. Moreover, focus on the best customers. Using Customers Relationship Management tools and loyalty to best people can be very important.

Fall in consumer spending is a steady drop in all levels of consumer prices. It is very damaging to the economy, involving an increase in actual weight of debt and discourages consumption, since spending decisions were postponed to the anticipation of further price drop. This scenario favours the economic slowdown and a downward spiral of the economy. Deflation is bad when it is attached to a collapse of aggregate demand. There is hypothesis that is impossible to avoid relegation to the gulf because there is scope for substantially cut the price of money is meaningless.