

Economic growth

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Economic growth is important if businesses are to grow and prosper. It relates to growth in the output of the economy as a whole. Growth is measured as the change in the gross domestic product (GDP) of a country over one year. For comparisons over time this figure must be adjusted to allow for inflation and the resulting value is called 'real growth'. Over time real economic growth leads to major improvements in living standards, expanding existing markets and opening new ones. The real economic growth of one country relative to another is an important indicator of business opportunity.

Economic growth depends on productivity and investment: using existing resources more efficiently and investing in new resources. Success in this process generates increased incomes which then fuel demand and encourage further economic growth. This cycle can, however, work in the reverse direction, as falling demand may lead to under-used resources and investment cutbacks. Incomes may fall further in a spiral effect.

When a business enterprise is setting objectives and strategy for the future, economic growth is a vital factor to consider. Firms with products that are necessities are much less affected by the upturns and downturns of economic growth. Supermarkets make a good example, although even they expand and contract their 'value' and upmarket brands according to economic conditions.

But firms selling luxuries are much more sharply affected by changes in economic growth. Home furnishings, restaurants, holidays and cars are all types of product where economic growth is a critical factor when setting business plans.