Economy
Monitor the economic indicators that have the greatest influence on the health of your business, to anticipate opportunities and challenges.

Why is monitoring economic indicators important?
Small business owners often have the ability to capitalize on emerging trends and uncover hidden opportunities. The eye for market opportunity works best with a full understanding of the overall economic conditions and changes on the horizon. Anticipating slowdowns is particularly important for a small business that may not have the depth of financial resources to weather economic down-cycles.

Key actions to take:

- Understand the trends in the overall economy:
  Knowledge of the economy’s direction can help you make good business decisions by anticipating opportunities and issues with your customers and suppliers. The direction of specific technical indicators may guide some of your business decisions. Gross Domestic Product (GDP) and the Consumer Price Index (CPI) may give you indications about your pricing power with customers. The unemployment rate may point to where labor costs are heading. Small business optimism measures may suggest the willingness of other businesses to partner with you. Interest rates and anticipated Federal Reserve discount rate changes can help you with finance decisions while inflation expectations may guide your raw materials inventory purchase decisions. Oil prices, stock market trends, housing prices, consumer debt and many others may point to economic forces that will influence your business. Taken in aggregate, you will get a sense of the economic mood that your customers, suppliers, partners and advisors will be feeling. Even if you have a business that is countercyclical or isolated by geography, market or other factors from general trends, you need to know how others that you will deal with and negotiate with are reading the economy.

- Identify economic indicators that are most meaningful for your business: If you serve a certain city or region, what is going on there? How do the economic trends mirror or contrast with national trends? If your industry sources or sells globally, are there other international indicators, e.g., exchange rates, economic trends abroad, political developments in trading partners, etc., that drive your business? How are your customers reading this data? Match your inputs, customers and markets to the economic indicators that are most meaningful to each.
• **Drive economic data into decisions.** While economic data provides meaningful business context, extracting the most value means pushing it into use to find specific opportunities and anticipate challenges for your business. You can use the economic data in:
  
  a. **Business planning.** The economic indicators can guide decisions across a host of areas including production levels, staffing, inventory, pricing, sales and marketing, business development, etc.
  
  b. **Credit decisions.** Knowing the direction of debt costs will help you decide how to approach funding and capital decisions. For example, you might be more careful about drawing on a floating rate line of credit if you expect a rising rate environment.
  
  c. **Marketing, sales, pricing.** Some markets and customer types are particularly sensitive to overall economic direction. For example, retailers are known for being among the first to feel a downturn coming. Specific economic trends that affect your customers can guide you in a product pricing review or negotiation.

• **Find sources for economic information.** There are many excellent sources of information that are published regularly. The government compiles economic indicators. You can find the regular publication schedule and make a note to revisit as new data is available. Business publications also provide compilations and surveys to give you useful economic information. Other sources include: subscribing to the newsletter of local economic development councils, getting involved in the Chamber of Commerce or other local business groups. Most industries have trade associations or publications that help business owners understand the specific economic trends, competitive pressures, and innovations that may drive change. Read this material regularly to stay on top of changes that may affect your business.

• **Disseminate economic information to key members of your team:** You want to make sure economic information is used by those in your business who can benefit most. Are credit conditions and interest rates taken into account in cash management decisions? Do you consider overall economic indicators when negotiating with suppliers? Does the business look at how economic factors are affecting customers when setting prices or conducting negotiations? Whether through monthly review at a management meeting or via a compilation of links sent with your interpretation, make sure your work in monitoring economic conditions makes its way to your team.

Click below for additional resources:

**Preparing to Ride a Surge in Demand**
Take full advantage of opportunities to grow your sales and customer base.

**Local Economic Indicators Guide Business Decision-Making**
See how to use economic signals to better manage your business.

**Understanding Economic Indicators for Investment Strategy**
Get the lowdown on what some of the most important economic indicators mean and why they matter.

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