
The Global Economy

Business Cycle Properties



The idea

- Economic growth is volatile
- We're not sure why, but we did come up with a name: business cycles

2

Roadmap

- In the news
- Business cycles
- Volatility
- Mercedes-Benz USA
- Business cycle properties (some things are more "cyclical" than others)
- What's more cyclical?

3

In the news

- "Kazakhstan spoof anthem played," AP, March 23, 2012:
 - At the Arab shooting championships in Kuwait yesterday, the organizers played the anthem from "Borat" in place of the real one. Apparently they downloaded anthems from the internet and got the wrong one.

4

In the news

- "China's \$22 trillion time-bomb," *Business Standard*, March 2, 2012, via Neel Sheth:
 - China's growth model is based on the oldest rapid economic growth hormone available: debt.
- What's the idea? Serious problem or not?

5

In the news

- Robert Mellman, JP Morgan Chase, March 16, 2012
 - Our forecast still looks for GDP growth to average 2% (SAAR) in the first half of the year, with 1.5% this quarter and 2.5% next quarter. This week's reports on retail sales and inventories came in stronger than expected, and tilt the risk to the upside.
- What is he talking about? Good news or bad?

6

In the news

- Neil Shah, "Vital signs," WSJ RealTime Economics, March 22, 2012
 - Builders broke ground on fewer homes in February than in January, but overall housing starts are on the rise. January's rate was revised up to 706,000 — the best reading since October 2008. Permits for new construction climbed to their highest level since October 2008.
- What is he talking about? Good news or bad?

7

In the news

- Jon Hilsenrath, WSJ, March 22, 2012
 - Charles Evans, president of the Chicago Fed, called for a stronger commitment to low interest rates.
- What is he talking about? Do you agree?

8

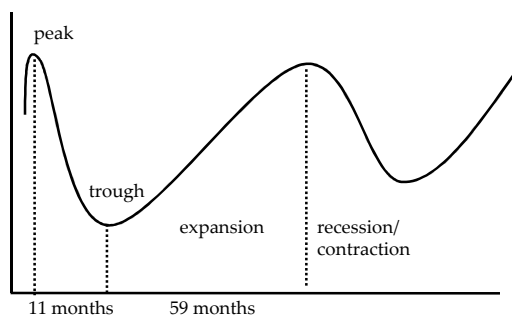
Business cycles

Business cycles: what are they?

- Burns and Mitchell
 - Fluctuations in aggregate economic activity. Expansions occur in many economic activities, followed by similarly general recessions, which merge into the next "cycle."
- That is: short-term fluctuations in growth rates

10

Business cycles: terminology



11

US business cycle duration in months

Period	Contraction	Expansion	Total
1854-2009 (33 cycles)	16	42	56
1854-1919 (16 cycles)	22	27	48
1919-45 (6 cycles)	18	35	53
1945-2009 (11 cycles)	11	59	73
Great Recession (2007-09)	18	73	91

12

Great Depression still great

	How Long?	How Deep?		
	Duration	Real GDP	Ind. Prod	Emp.
Great Depression (1933)	43	-33%	-53%	-32%
Major depressions (1921, 1938)	16	-13	-32	-11
Sharp recessions (1924, 1949, 1954, 1958, 1975, 1982)	13	-3	-12	-4
Mild recessions (1927, 1945, 1961, 1970, 1980, 1991, 2001)	9	-2	-7	-2
Great Recession (2009)	18	-5	-15	-5

Sources: BEA, BLS, Citi, FRB, and Geoffrey Moore.

13

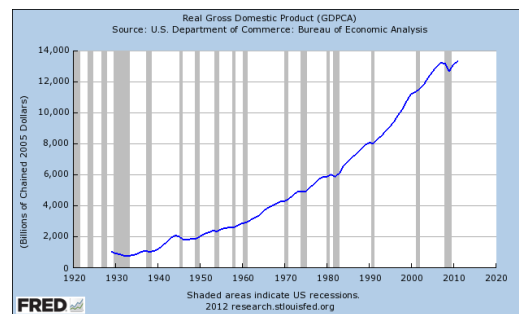
Business cycles: who cares?

- Finance
 - Fixed income
 - Currencies
 - Asset management
 - Equities, esp emerging markets
- Media and marketing
 - Not a focus, but they're unusually cyclical businesses
- Everyone else
 - Fact of life you'll have to deal with

14

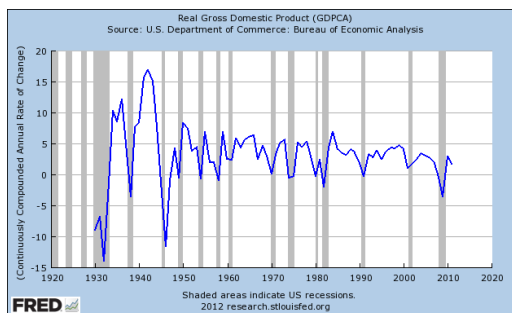
Volatility

US GDP



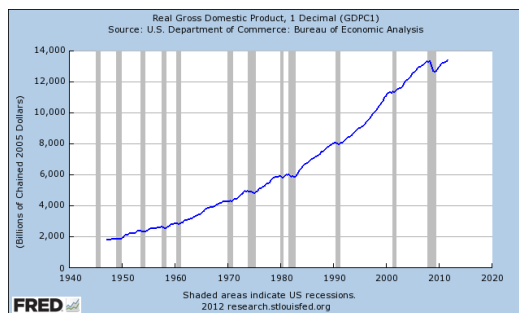
16

US GDP annual growth



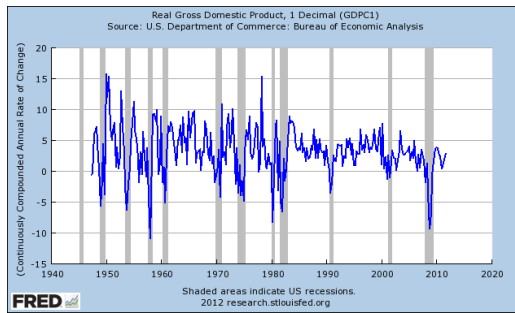
17

US GDP



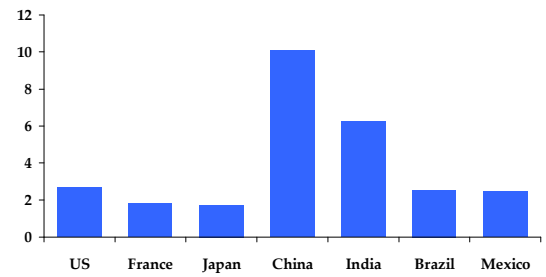
18

US GDP quarterly growth



19

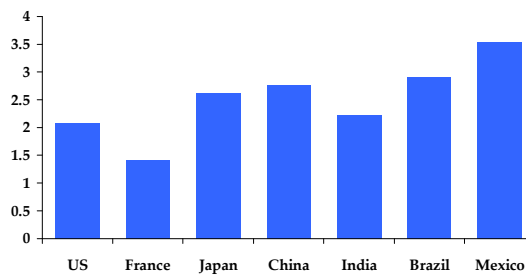
Mean annual GDP growth, 1980-2011



Source: EIU CountryData

20

Std dev annual GDP growth, 1980-2011



Source: EIU CountryData

21

Mercedes-Benz USA

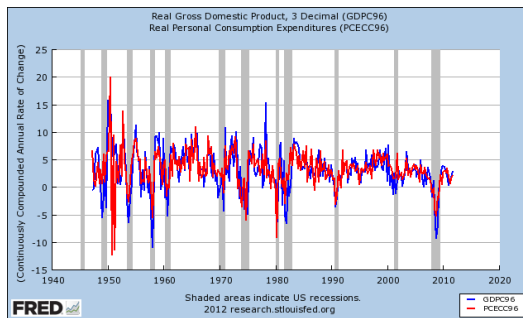
Mercedes-Benz USA

- How should they respond to expansions? Contractions?
- What aspects of their business are important?
- How do conditions look now?

23

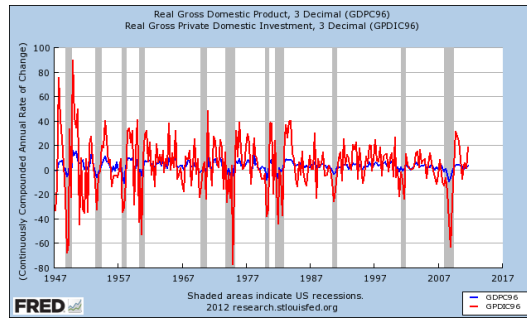
Business cycle properties

Consumption



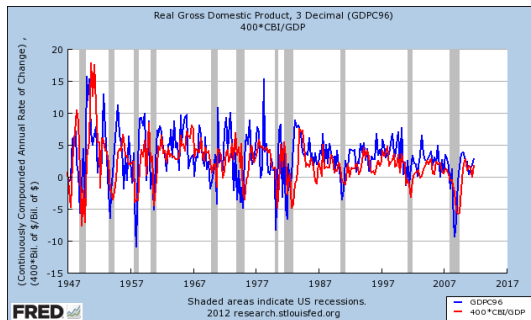
25

Private investment



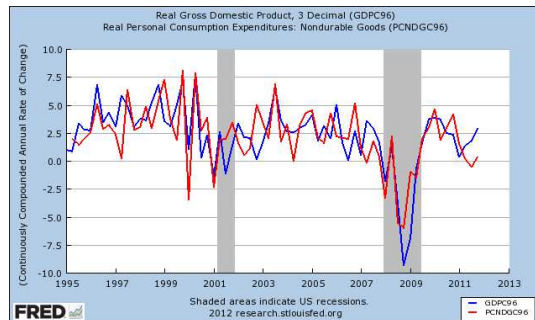
26

Change in inventories



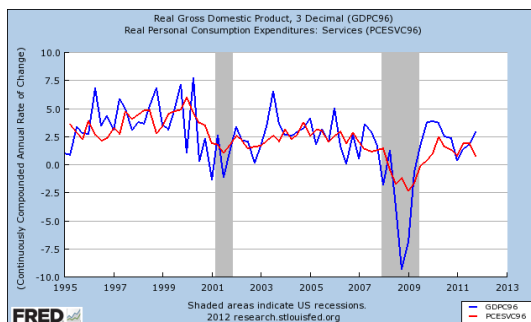
27

Consumption: nondurable goods



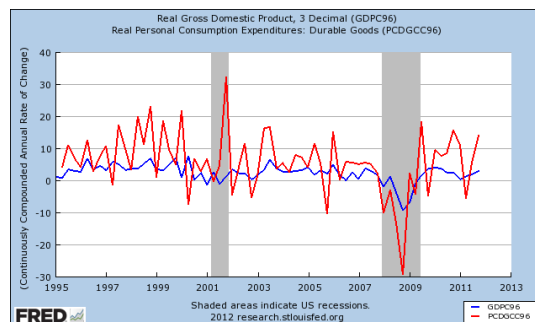
28

Consumption: services



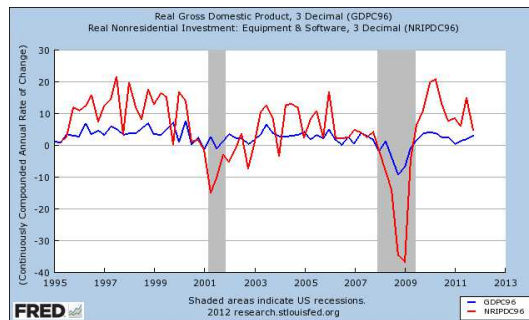
29

Consumption: durable goods



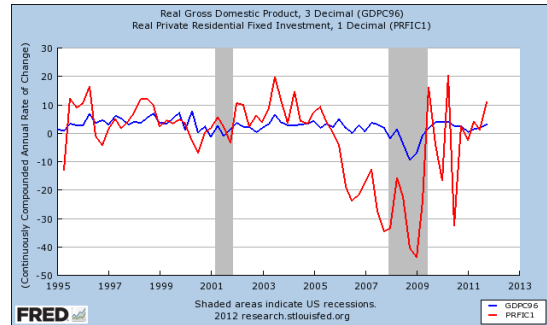
30

Investment: equipment & software



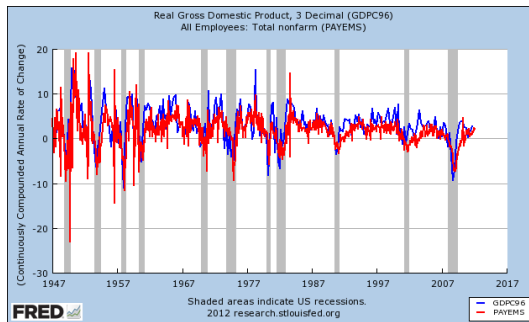
31

Investment: housing



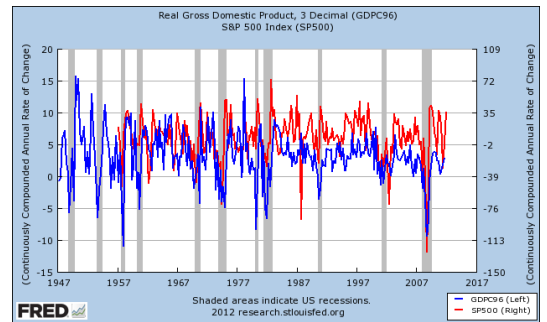
32

Employment



33

S&P 500



34

What's more cyclical?

What's more cyclical?

- General Motors
- Procter & Gamble
- Pfizer
- Johnson & Johnson

36

What's more cyclical?

- Walmart
- Richemont
- New York Times
- Google
- American Airlines
- McKinsey

37

What have we learned?

- Economic growth is volatile
- Lots of things move up and down together
 - [Like what?]
- Some of them move more than others
 - [Which ones?]

38

For the ride home

- The economy
 - How does it look to you?
 - How would you get a clearer picture?

39