
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

Roadmap

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

What's happening?

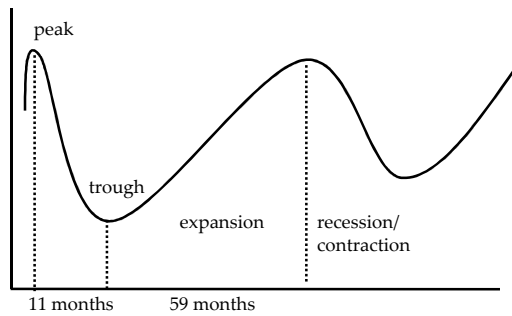
- Cyprus summary
 - Large banking sector targeting Russian money
 - Banks insolvent, partly from buying Greek debt
 - Depositors insured by government, which is short of money
 - After prolonged debate, covered small depositors, others took haircuts
 - Financed in part by EU money
 - New restrictions on moving money out of the country
 - Prospects bleak for banks, economy
- What would you have done? How would this have worked in the US?

Business cycles

Business cycles: what are they?

- Burns and Mitchell
 - "Business cycles" are 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

Business cycles: terminology



7

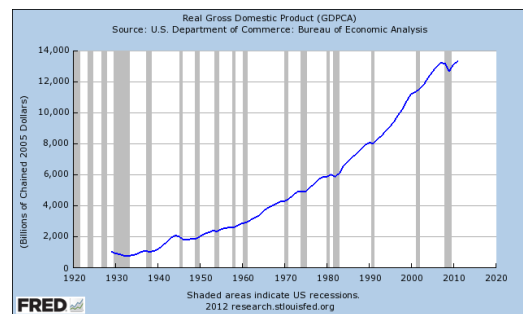
Business cycles: who cares?

- 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

8

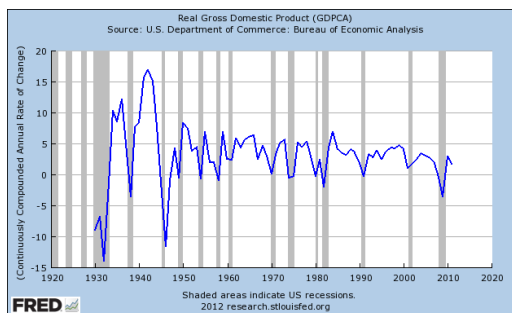
Volatility

US GDP



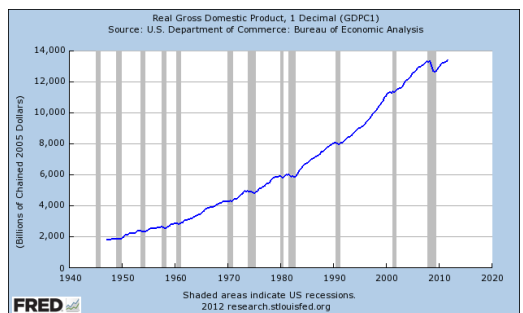
10

US GDP annual growth



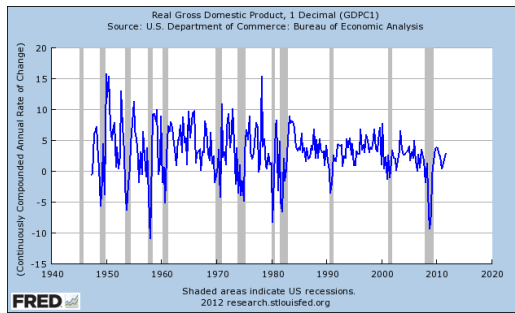
11

US GDP



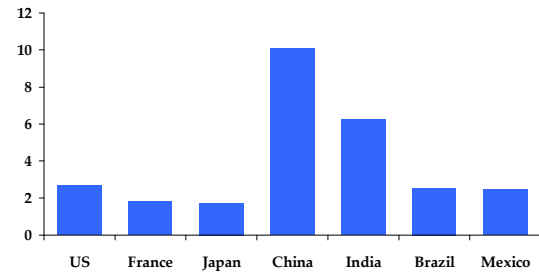
12

US GDP quarterly growth



13

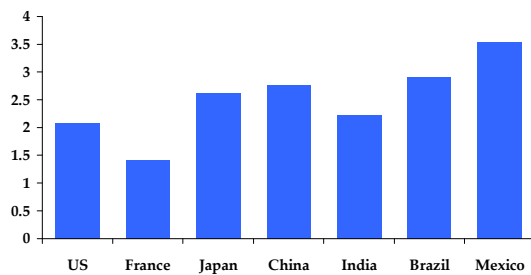
Mean annual GDP growth, 1980-2011



Source: EIU CountryData

14

Std dev annual GDP growth, 1980-2011



Source: EIU CountryData

15

Mercedes-Benz USA

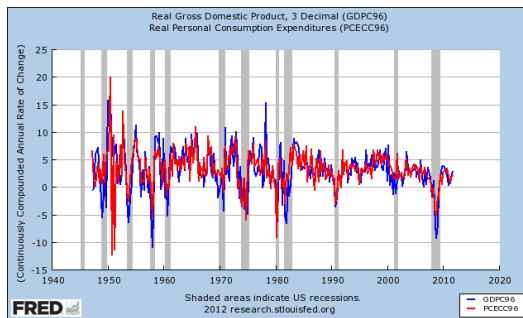
Mercedes-Benz USA

- How should they respond to a downturn? Why?
- How do conditions look now?

17

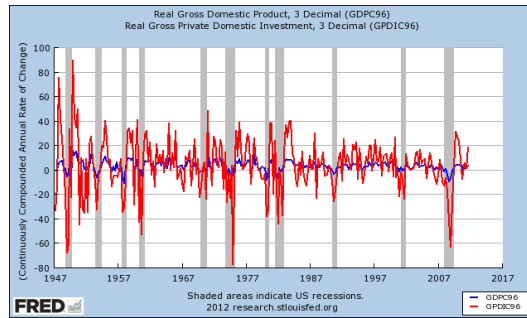
Business cycle properties

Consumption



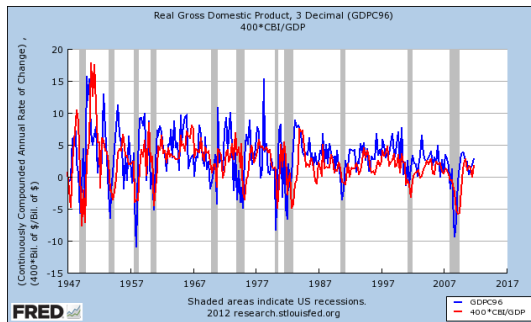
19

Private investment



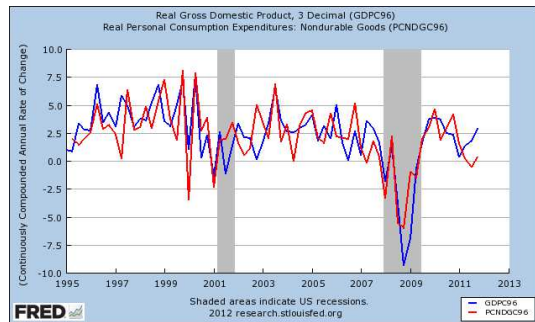
20

Change in inventories



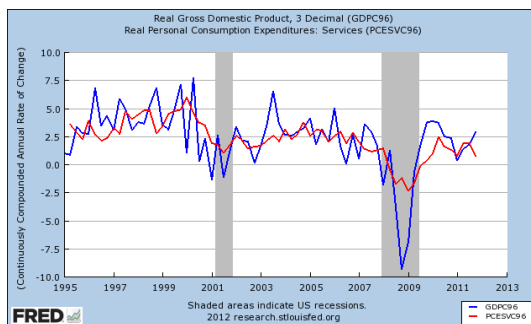
21

Consumption: nondurable goods



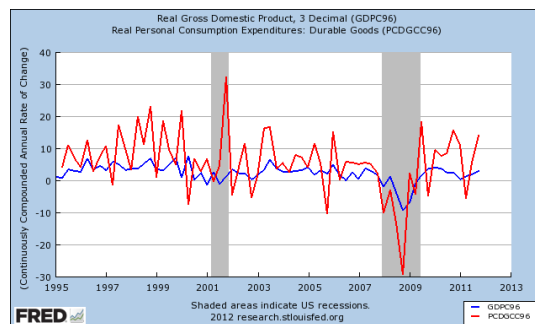
22

Consumption: services



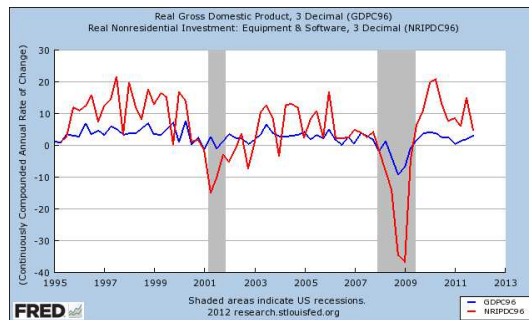
23

Consumption: durable goods



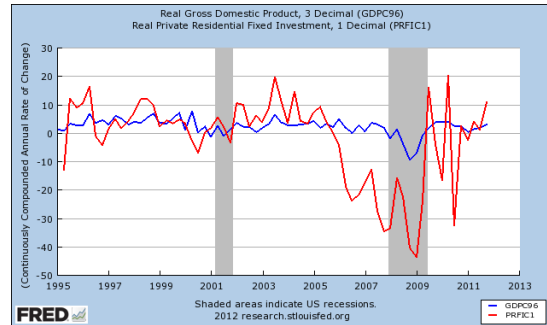
24

Investment: equipment & software



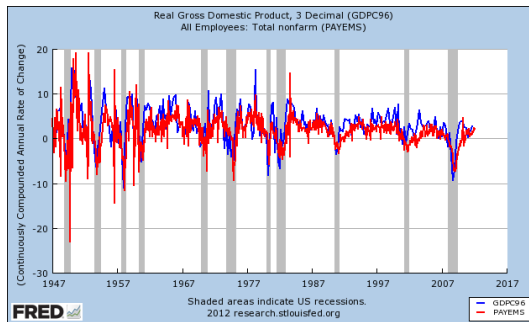
25

Investment: housing



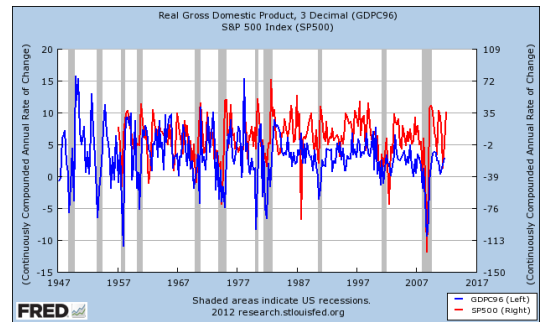
26

Employment



27

S&P 500



28

What's more cyclical?

What's more cyclical?

- General Motors
- Proctor & Gamble
- Pfizer
- Johnson & Johnson

30

What's more cyclical?

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

31

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?]

32

For the ride home

- The economy
 - How does it look to you?
 - How would you get a clearer picture?
- As an example, skim the attached JP Morgan report

33