
The Global Economy

Business Cycle Properties



Where we're headed

- New module: short-term economic performance

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The idea

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

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Roadmap

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

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What's happening?

- Leo Mirani, Quartz, October 2014
 - Facebook's corporation tax in the United Kingdom for 2013 came to a grand total of £3,169 (\$4,005). The company also received £185,196 in credits from previous years, leaving it with a credit balance of £182,027. The income tax paid by an inner London school teacher comes to just over £3,500.
- What's going on here? What do you think?

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What's happening?

- From the Bloomberg Economic Calendar
 - Wednesday: FOMC announcement, ADP employment
 - Thursday: Jobless claims
 - Friday: Consumer Sentiment, PMI
 - Next Wednesday: ADP employment report
 - Next Friday: BLS employment report
 - More next class
- Bloomberg -> Markets -> Economic Calendar

Source: Bloomberg, Economic Calendar.

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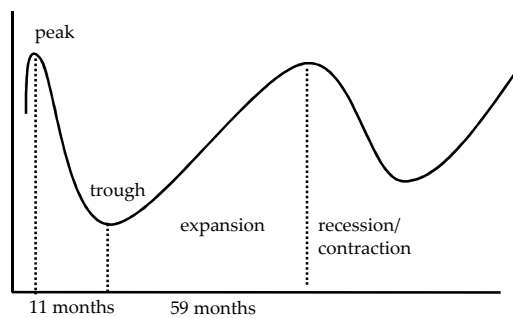
Business cycles

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

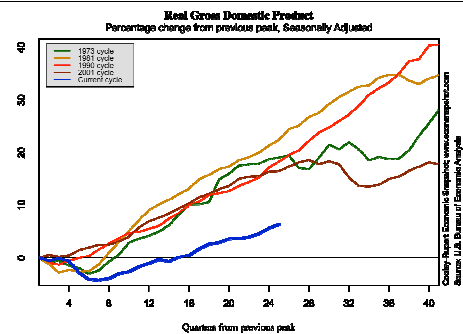
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Business cycles: terminology



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Business cycles: recent history



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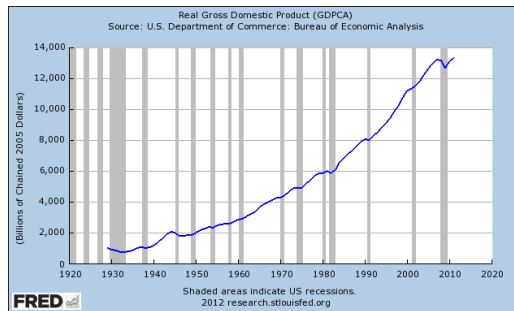
Business cycles: who cares?

- 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

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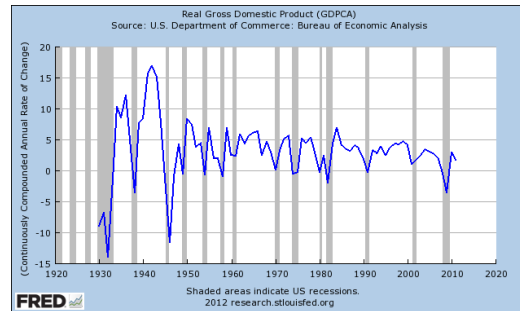
Volatility

US GDP (annual)



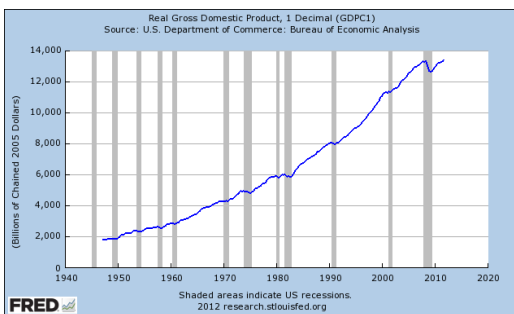
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US GDP (annual, growth rate)



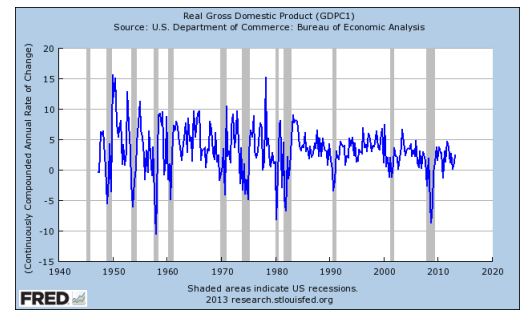
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US GDP (quarterly)



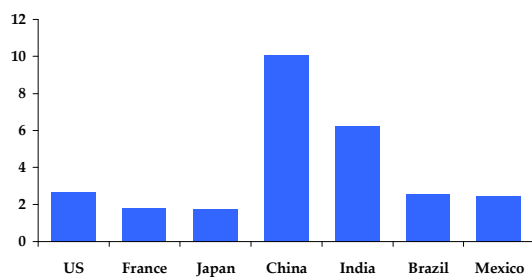
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US GDP (quarterly, growth rate)



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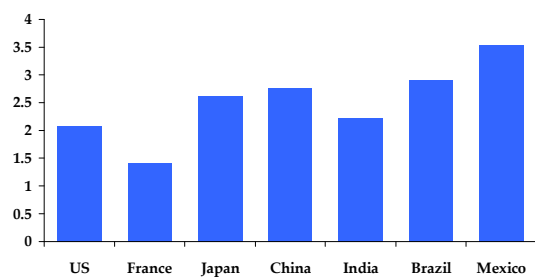
Mean annual GDP growth, 1980-2011



Source: EIU CountryData

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Std dev annual GDP growth, 1980-2011



Source: EIU CountryData

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Mercedes-Benz USA

Mercedes-Benz USA

- How cyclical is their business?
- Why?
- What should they do to deal with it?

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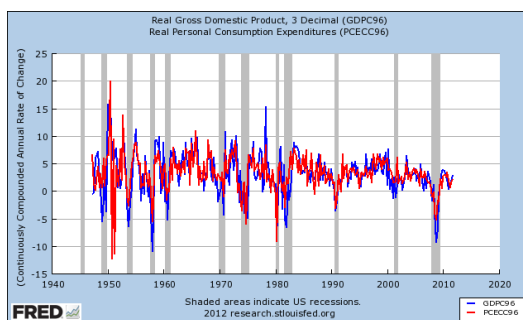
Business cycle properties

Business cycle properties

- Some things are more cyclical than others
- Which ones?

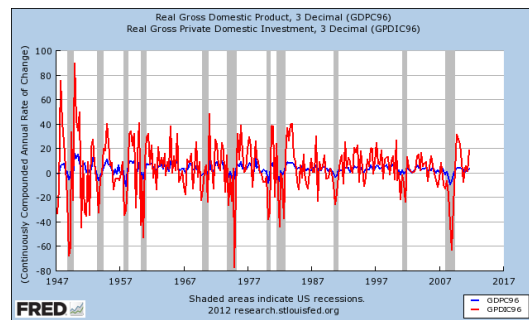
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Consumption



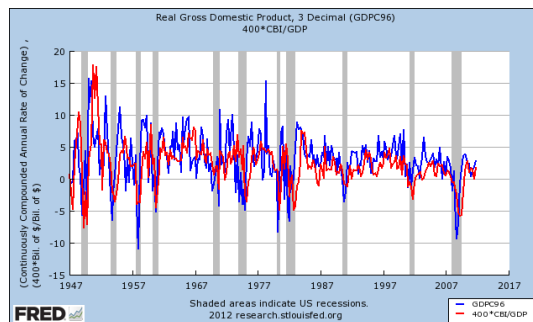
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Private investment



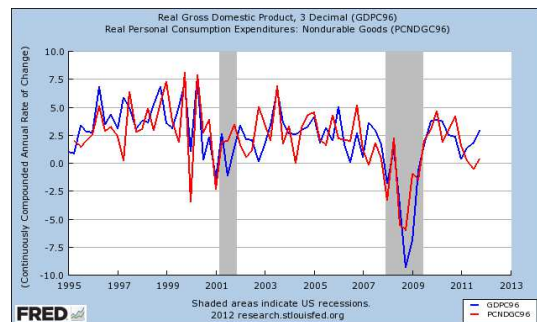
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Change in inventories



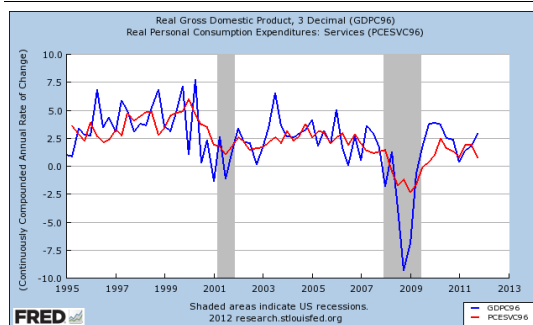
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Consumption: nondurable goods



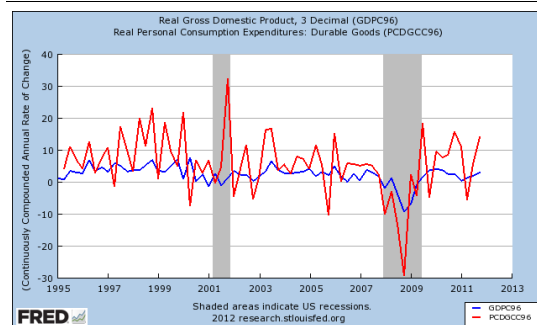
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Consumption: services



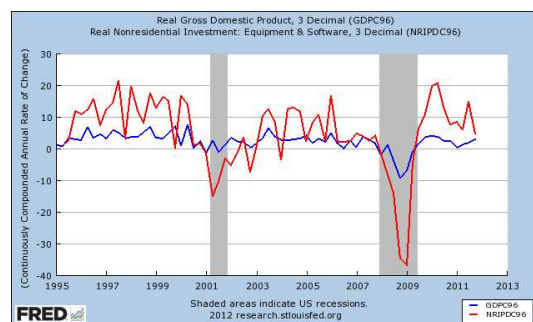
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Consumption: durable goods



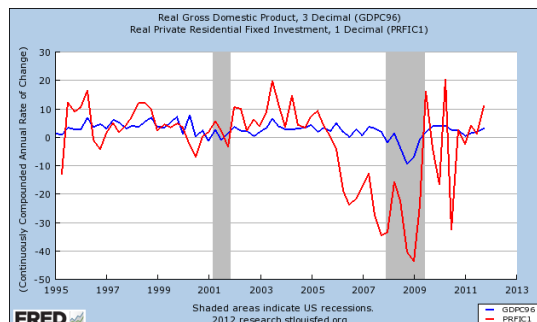
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Investment: equipment & software



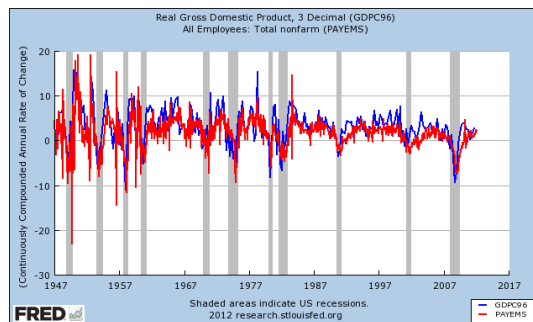
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Investment: housing



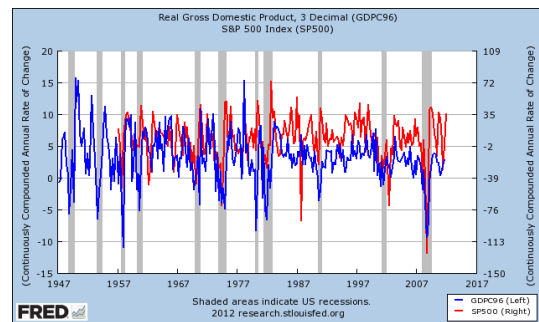
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Employment



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S&P 500



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What's more cyclical?

What's more cyclical?

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

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What's more cyclical?

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

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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?]

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For the ride home

- The economy
 - How does it look to you?
 - How would you get a clearer picture?
 - What indicators do you think would be helpful?