
The Global Economy

Business Cycle Properties



Where we're headed

- New module: short-term economic performance

2

The idea

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

3

Roadmap

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

4

What's happening?

- From the Bloomberg Economic Calendar
 - Monday: Industrial production
 - Tuesday: Retail sales, consumer confidence
 - Wednesday: FOMC announcement, ADP employment
 - Thursday: Jobless claims
 - Next week: GDP, employment
 - More on this next class
- Bloomberg -> Market Data -> Economic Calendar

Source: Bloomberg, Economic Calendar.

5

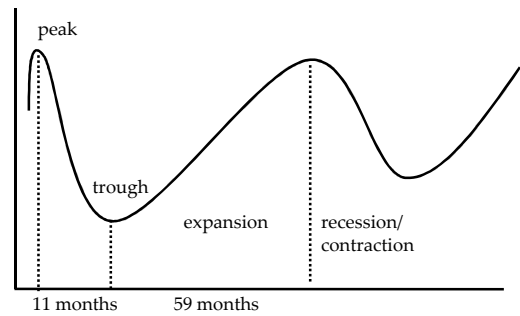
Business cycles

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

7

Business cycles: terminology



8

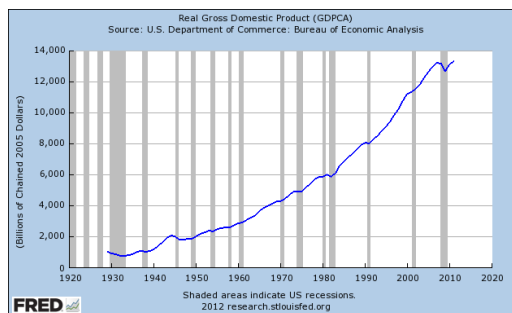
Business cycles: who cares?

- 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

9

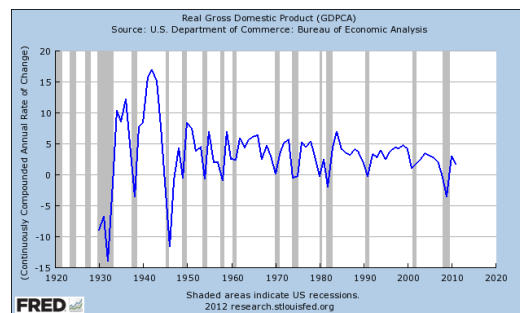
Volatility

US GDP (annual)



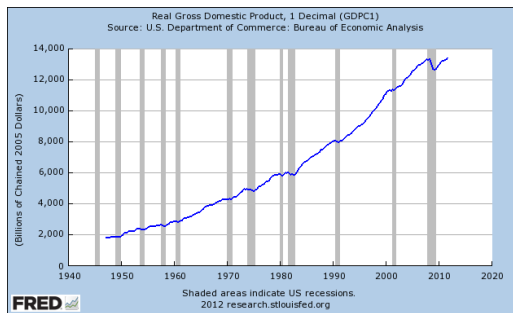
11

US GDP (annual, growth rate)



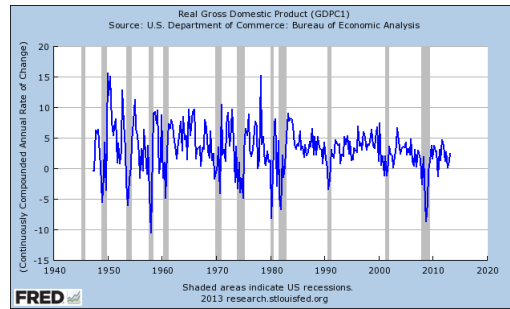
12

US GDP (quarterly)



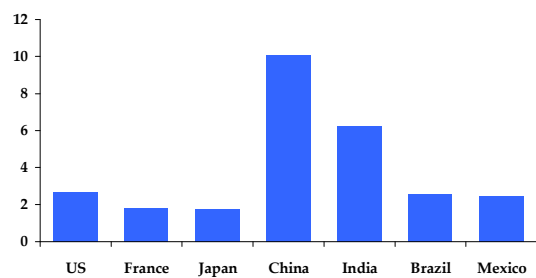
13

US GDP (quarterly, growth rate)



14

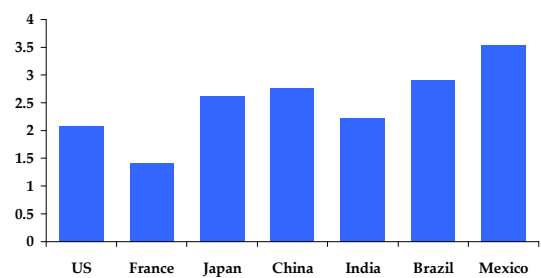
Mean annual GDP growth, 1980-2011



Source: EIU CountryData

15

Std dev annual GDP growth, 1980-2011



Source: EIU CountryData

16

Mercedes-Benz USA

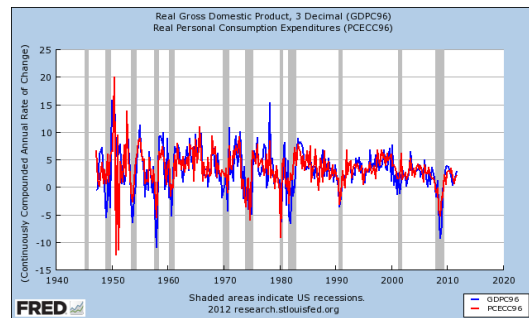
Mercedes-Benz USA

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

18

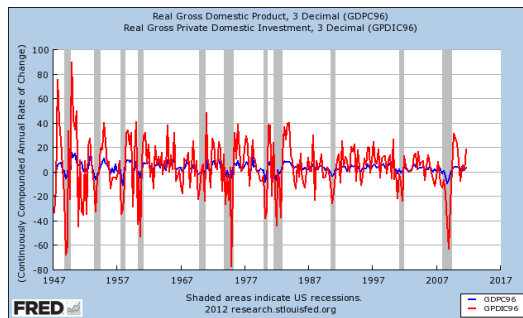
Business cycle properties

Consumption



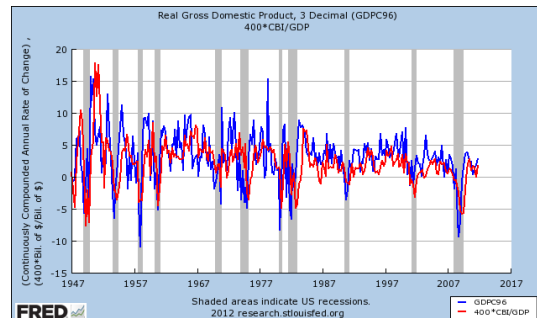
20

Private investment



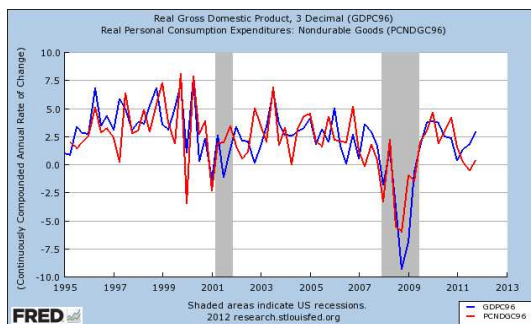
21

Change in inventories



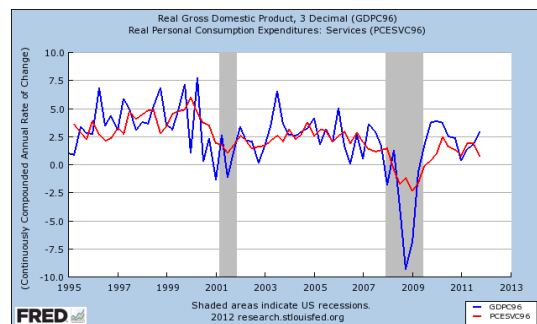
22

Consumption: nondurable goods



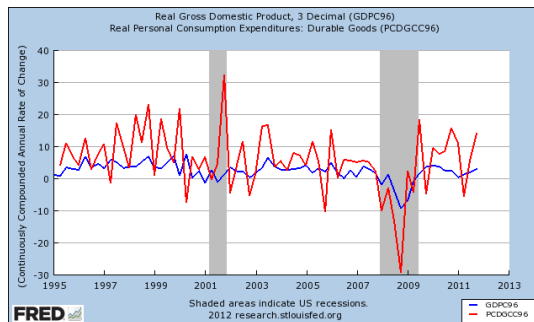
23

Consumption: services



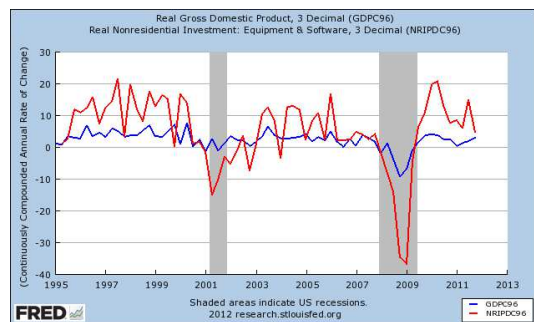
24

Consumption: durable goods



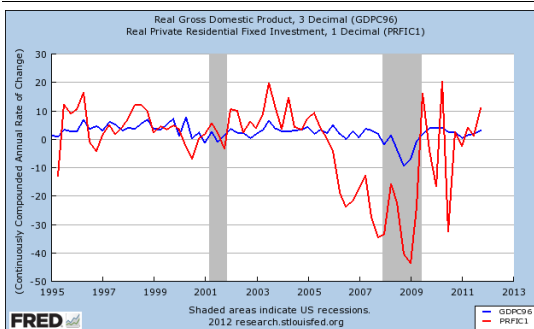
25

Investment: equipment & software



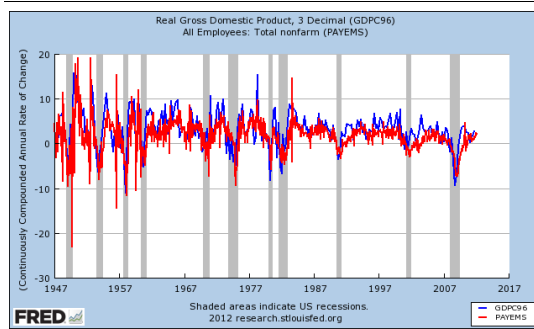
26

Investment: housing



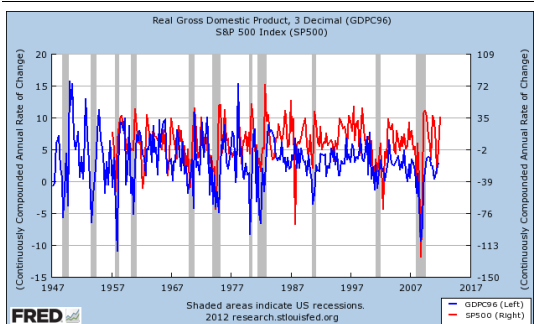
27

Employment



28

S&P 500



29

What's more cyclical?

What's more cyclical?

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

31

What's more cyclical?

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

32

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?]

33

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?
- As an example, skim the JP Morgan report linked on the discussion page – or other similar source

34