The Global Economy

*Business Cycle Properties*

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**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?**

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

Business cycles: terminology

- Peak: 11 months
- Trough: 59 months
- Expansion: 11 months
- Recession/contraction: 59 months

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

Volatility

US GDP (annual)

US GDP (annual, growth rate)
US GDP (quarterly)

Mean annual GDP growth, 1980-2011

Std dev annual GDP growth, 1980-2011

Mercedes-Benz USA

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

Consumption

Private investment

Change in inventories

Consumption: nondurable goods

Consumption: services
Consumption: durable goods

Investment: equipment & software

Investment: housing

Employment

S&P 500

What’s more cyclical?
### What’s more cyclical?
- General Motors
- Proctor & Gamble
- Pfizer
- Johnson & Johnson

### What’s more cyclical?
- Walmart
- Richemont
- New York Times
- Google
- American Airlines
- McKinsey

### 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?]  

### 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