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**The Global Economy**  
*Business Cycle Properties*

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# The idea

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

# Roadmap

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- 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?

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- Bloomberg economic calendar
  - Monday: Factory orders
  - Tuesday: ISM non-mfg index
  - Wednesday: Mortgage applications, EIA petroleum status report
  - Thursday: Jobless claims, Q3 GDP, consumer credit
  - Friday: Employment, personal income & consumption, consumer sentiment

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# *Business cycles*

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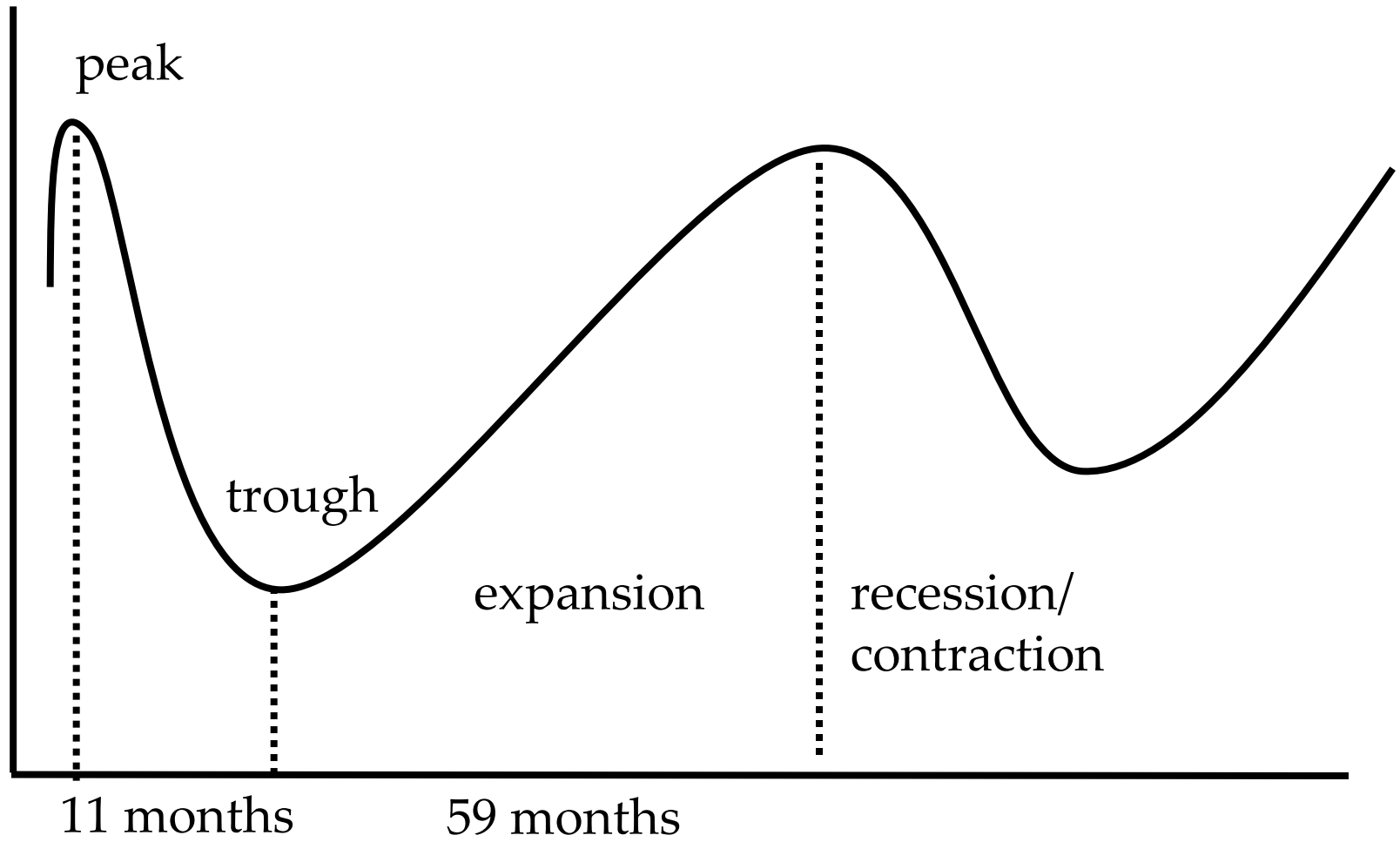
# Business cycles: what are they?

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- 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

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# Business cycles: who cares?

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- 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

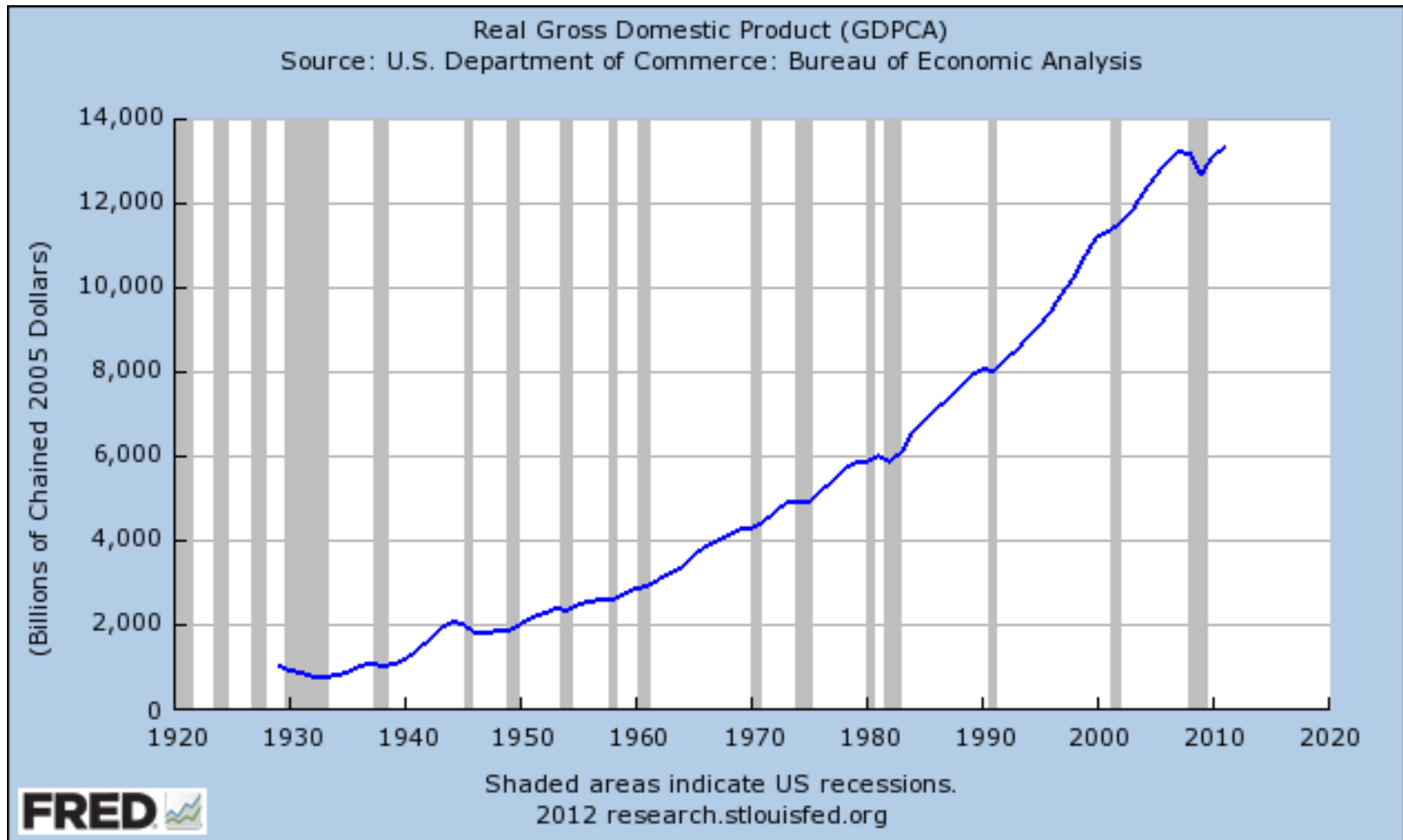


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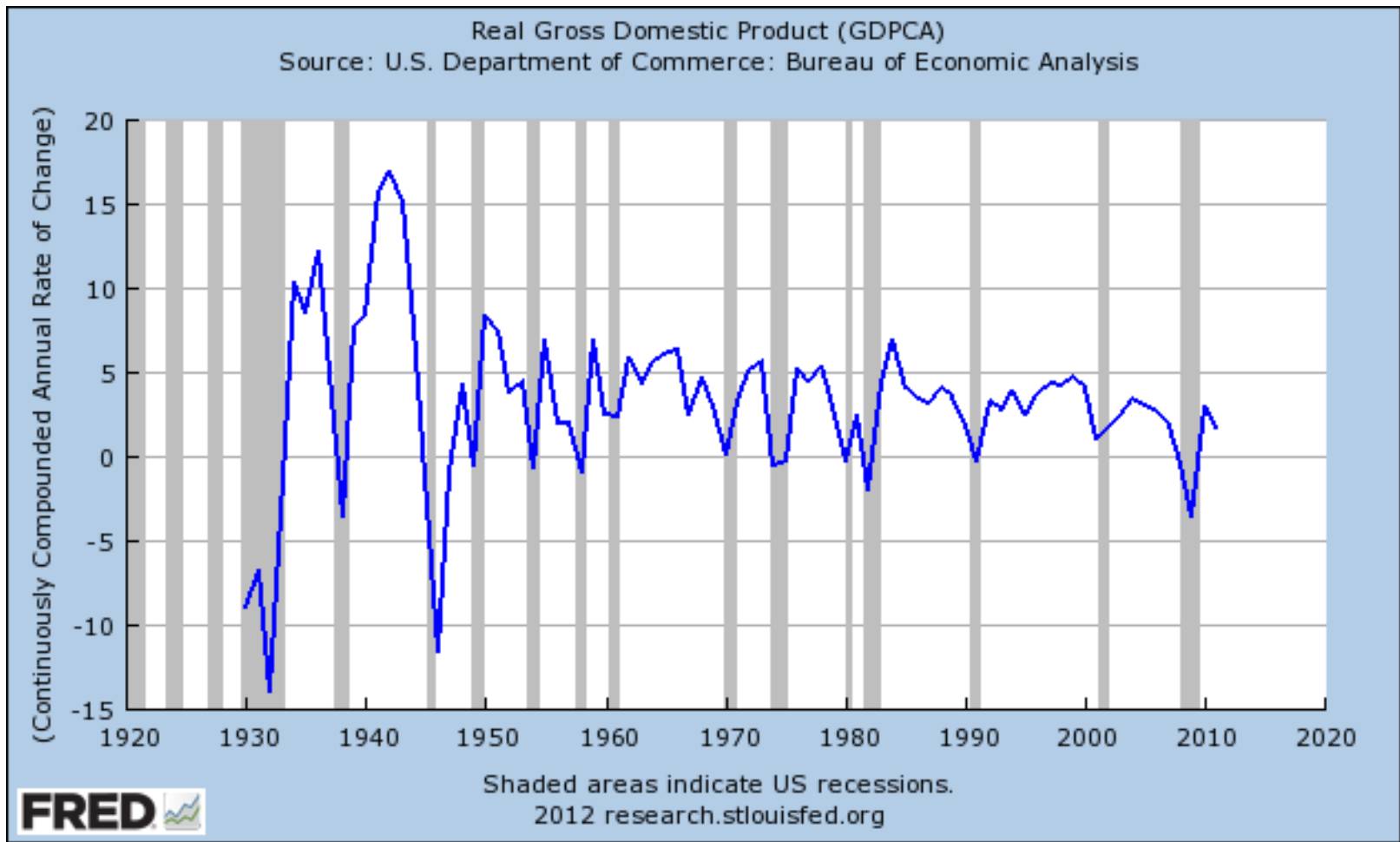
# *Volatility*

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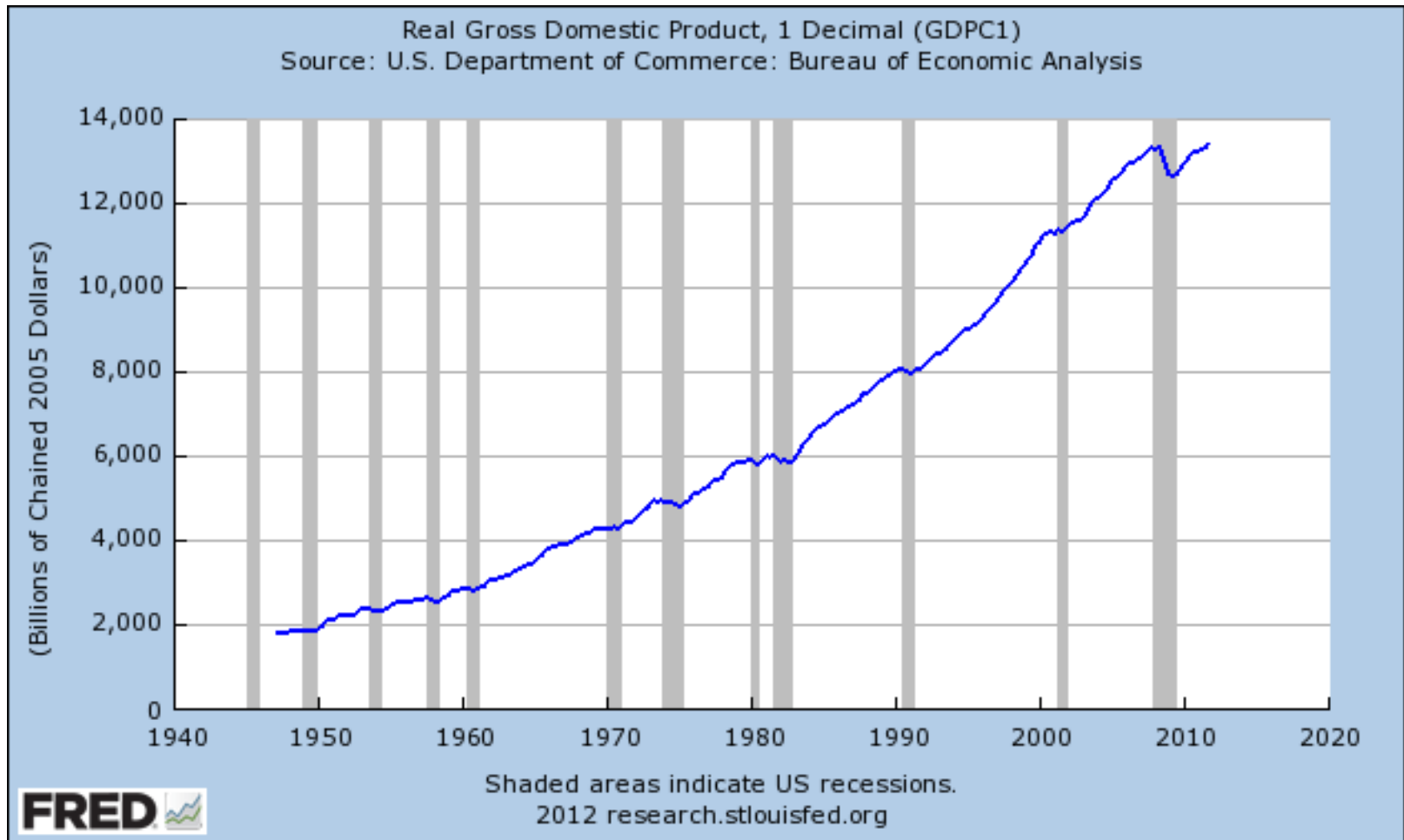
# US GDP



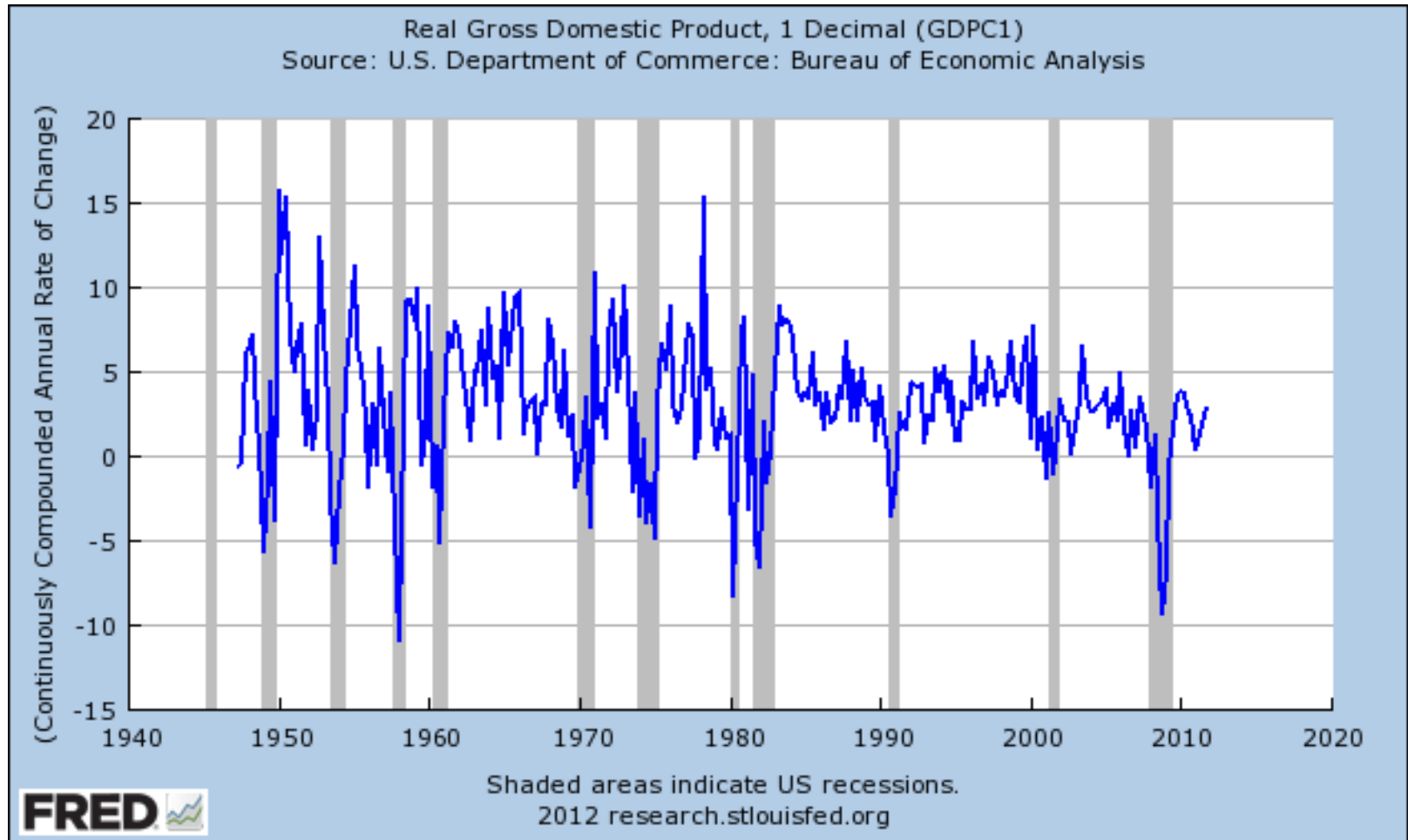
# US GDP annual growth



# US GDP

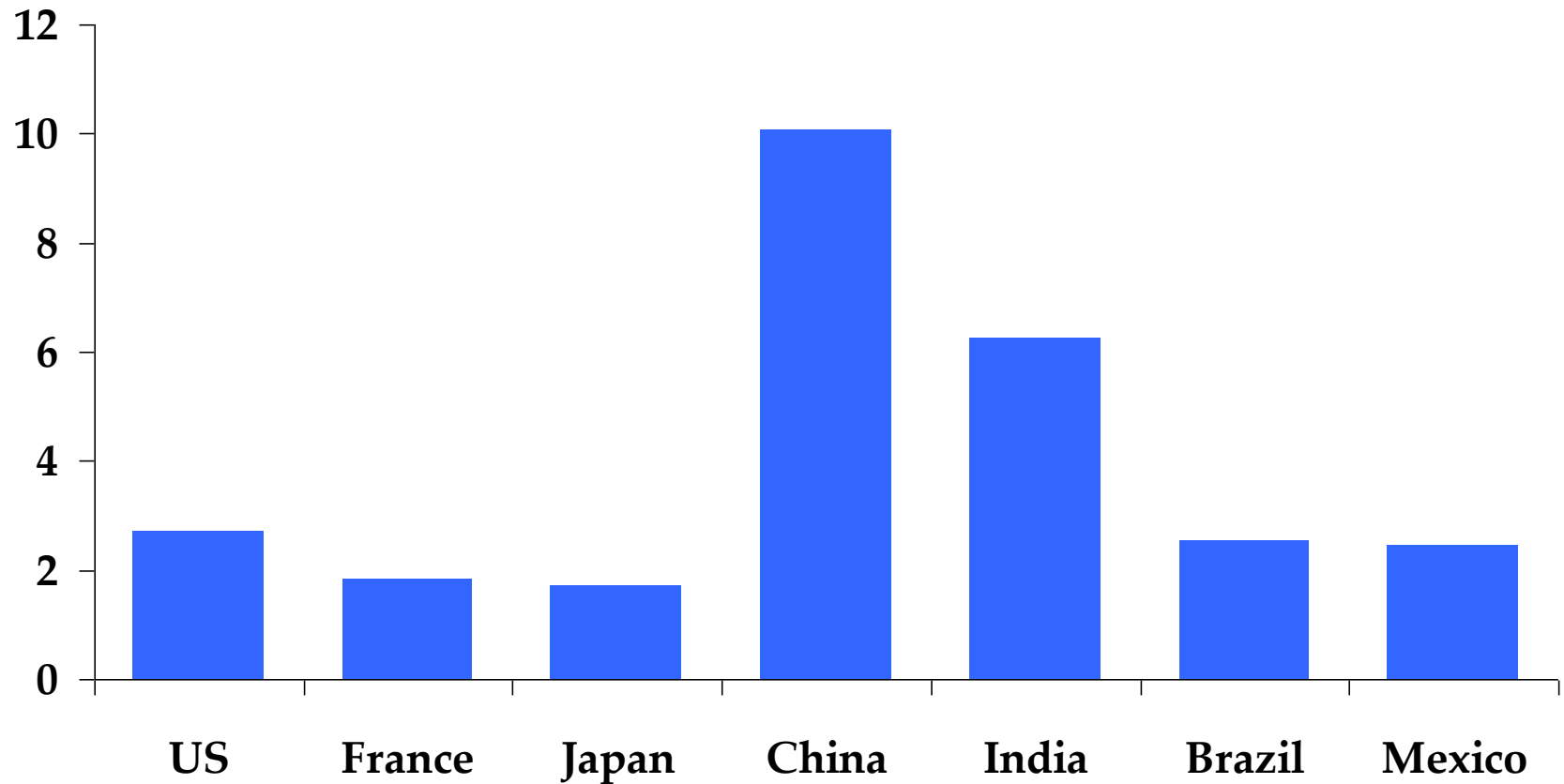


# US GDP quarterly growth



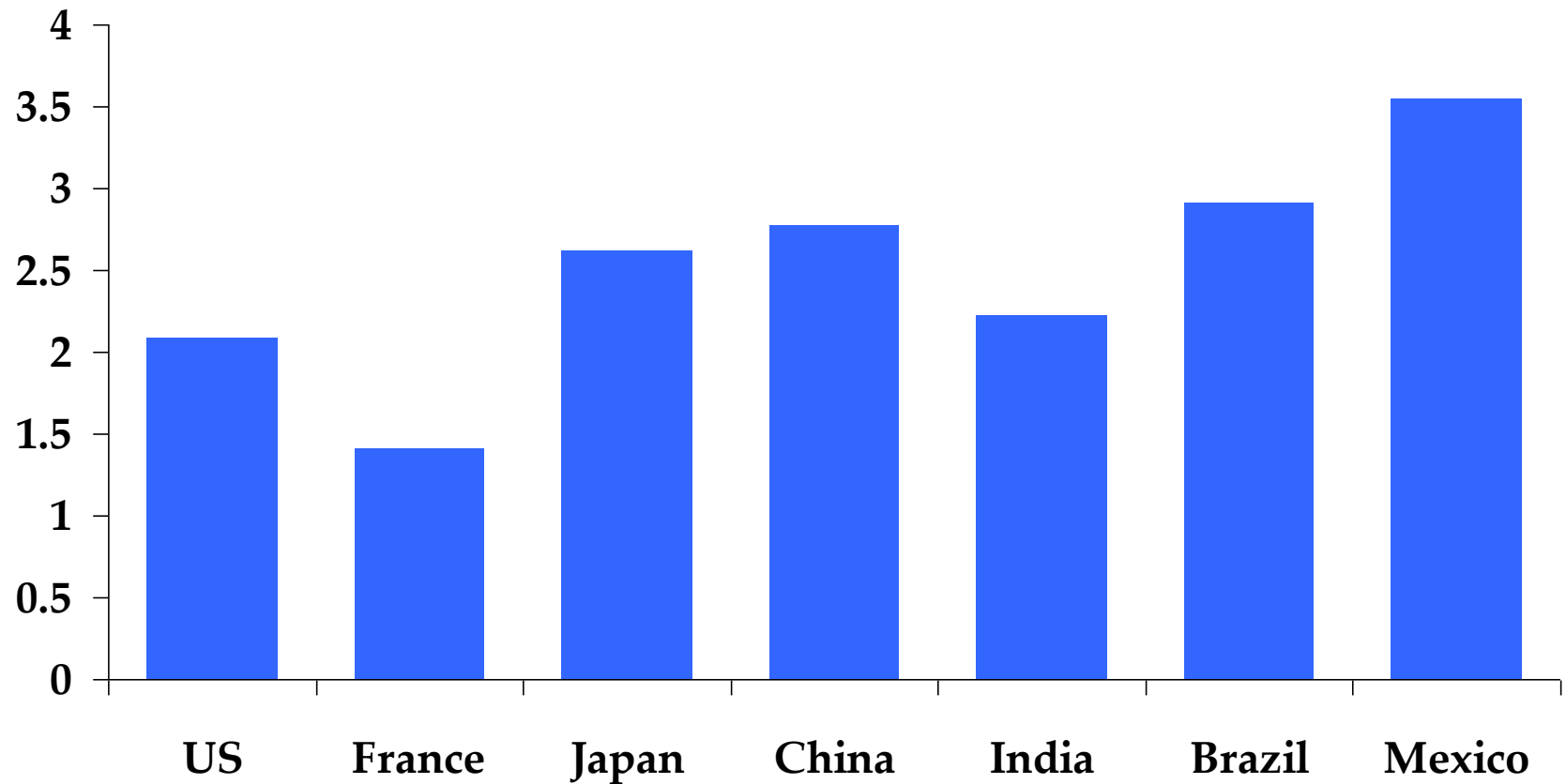
# Mean annual GDP growth, 1980-2011

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# Std dev annual GDP growth, 1980-2011

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*Mercedes-Benz USA*

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# Mercedes-Benz USA

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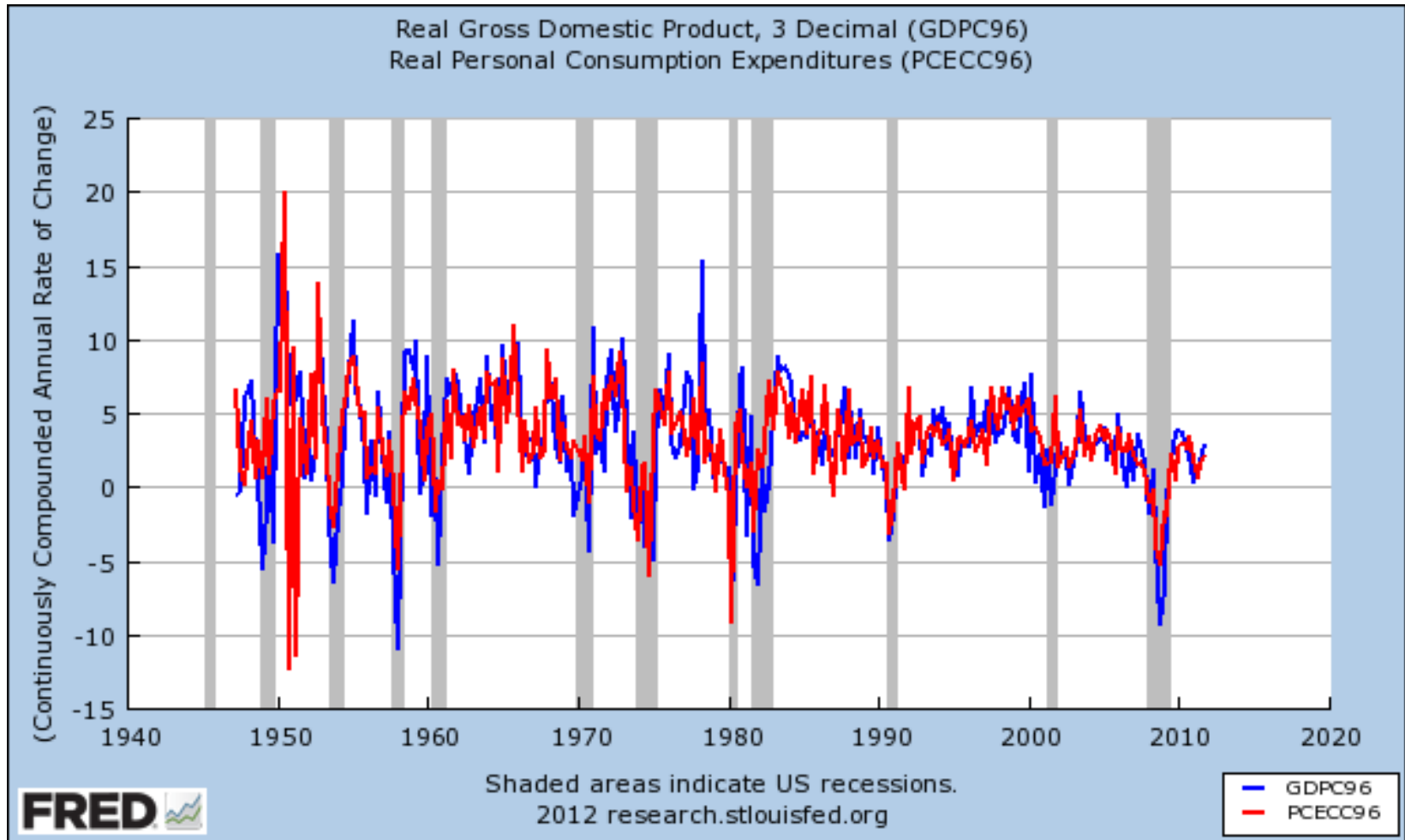
- How cyclical is their business?
- Why?
- What should they do to deal with it?

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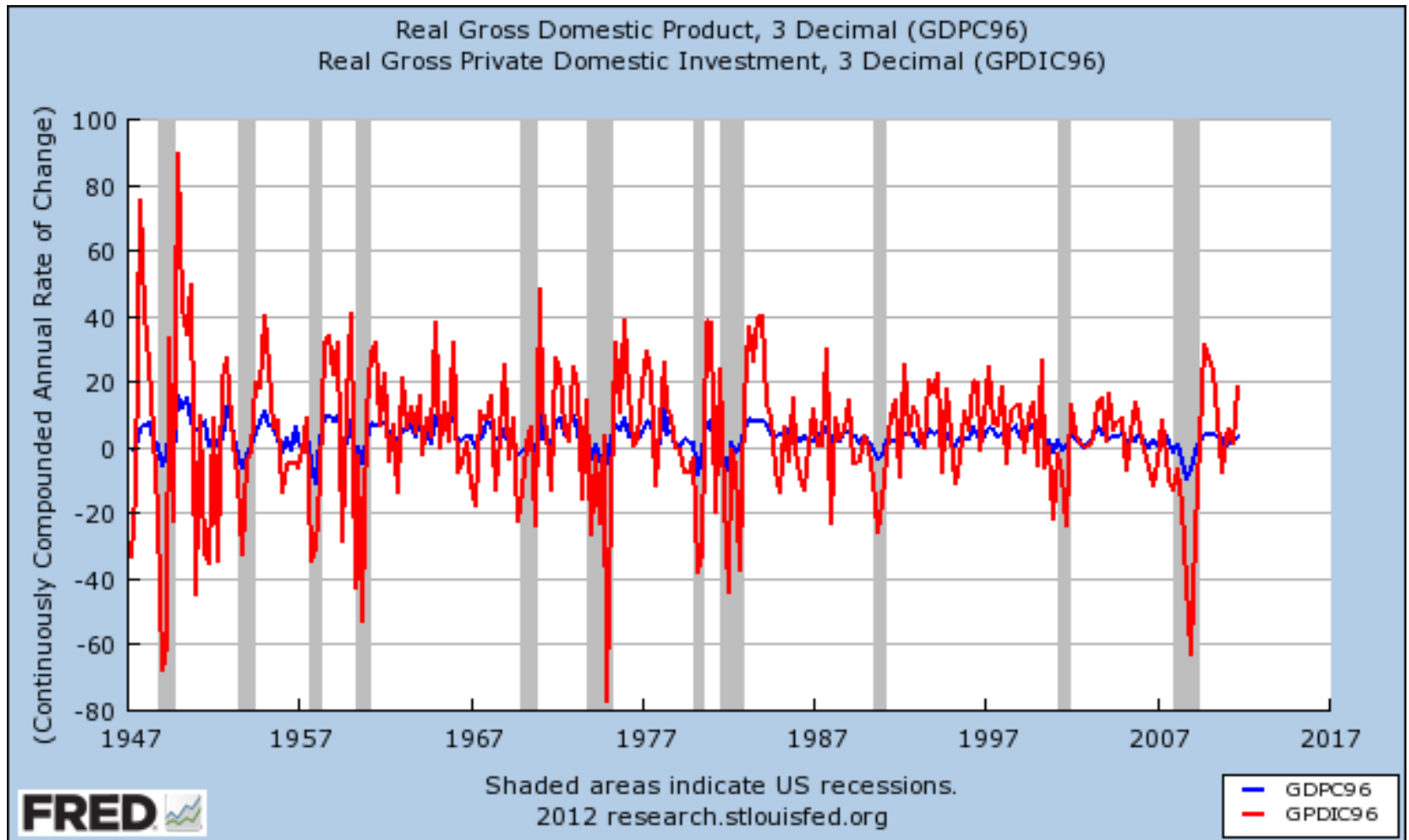
# *Business cycle properties*

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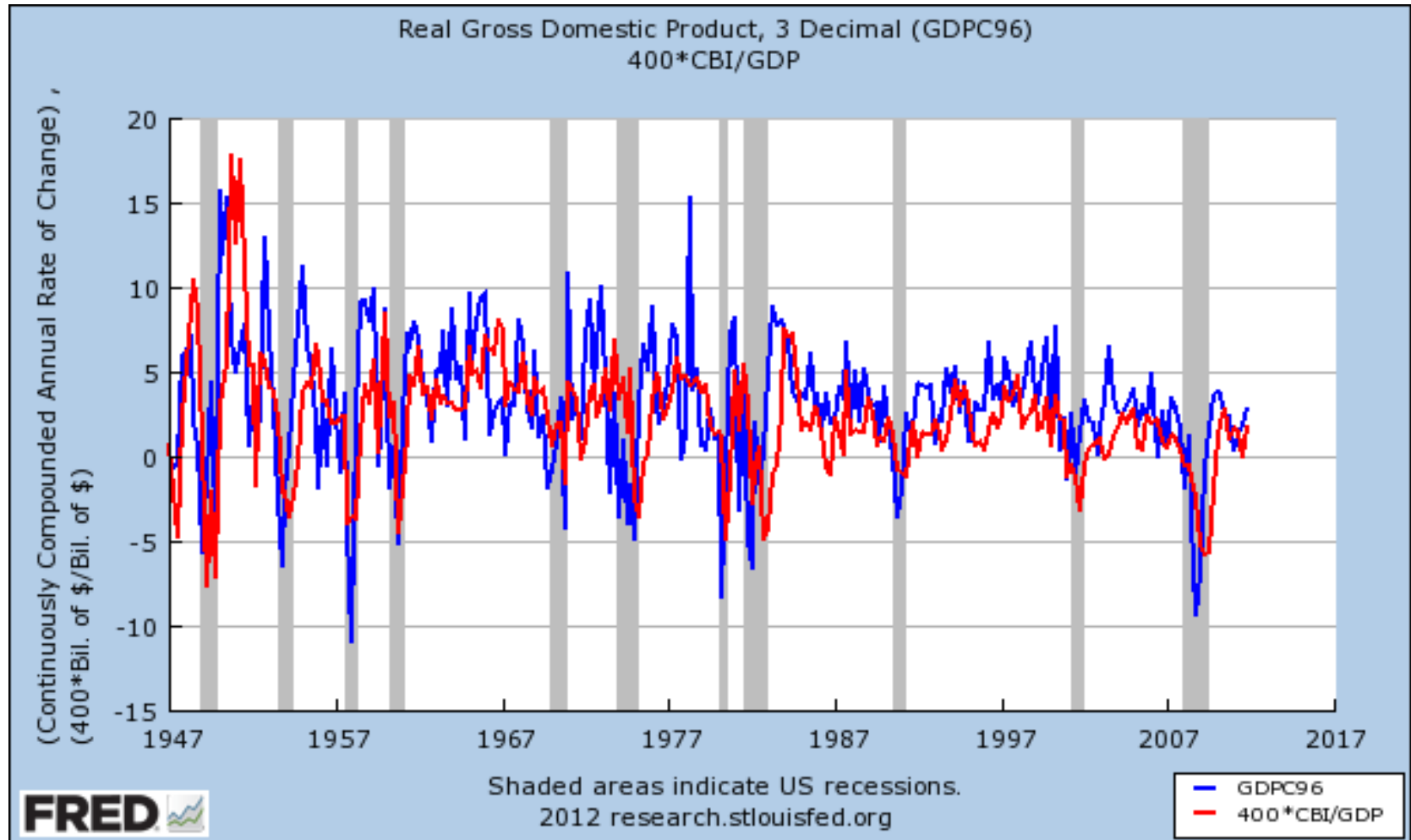
# Consumption



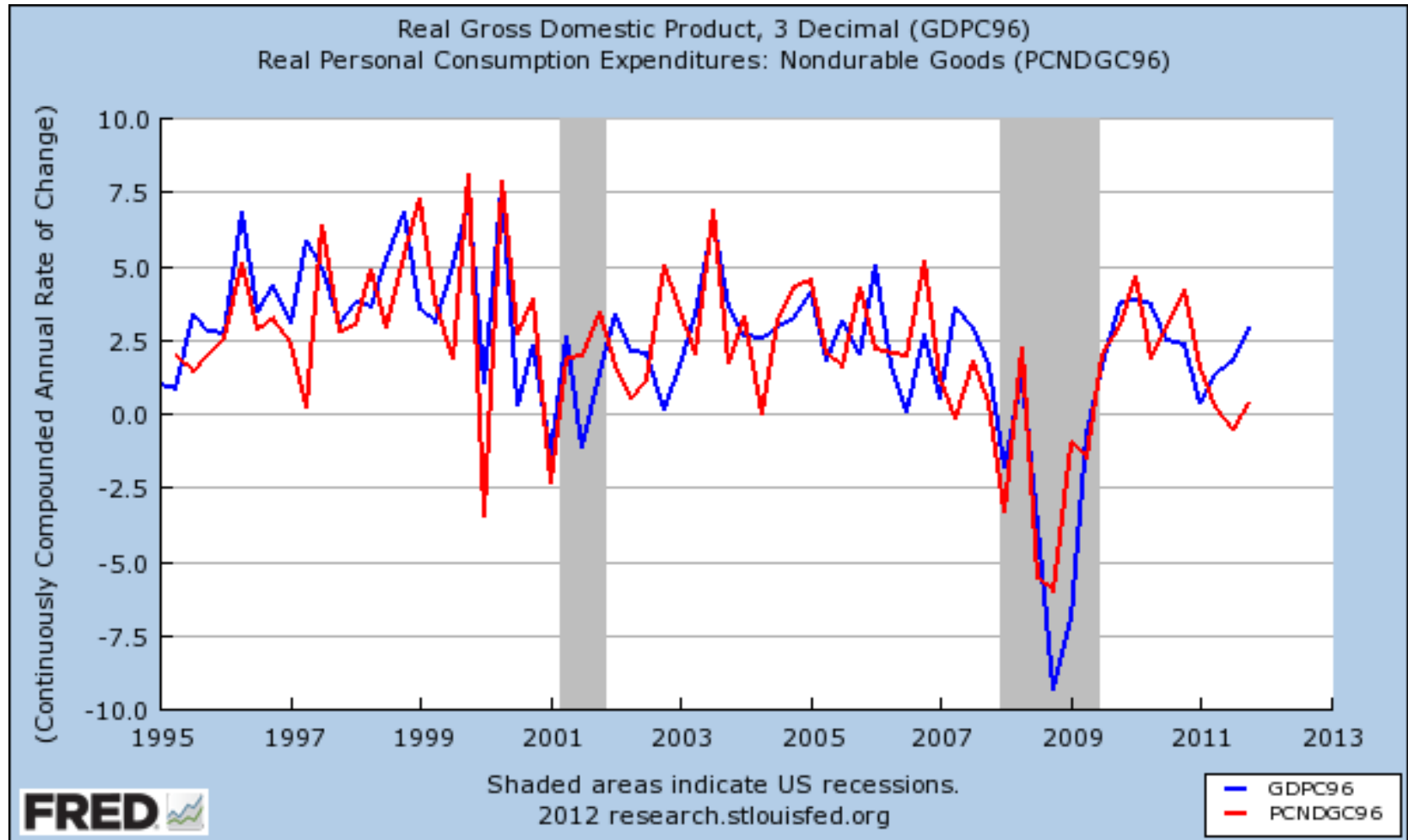
# Private investment



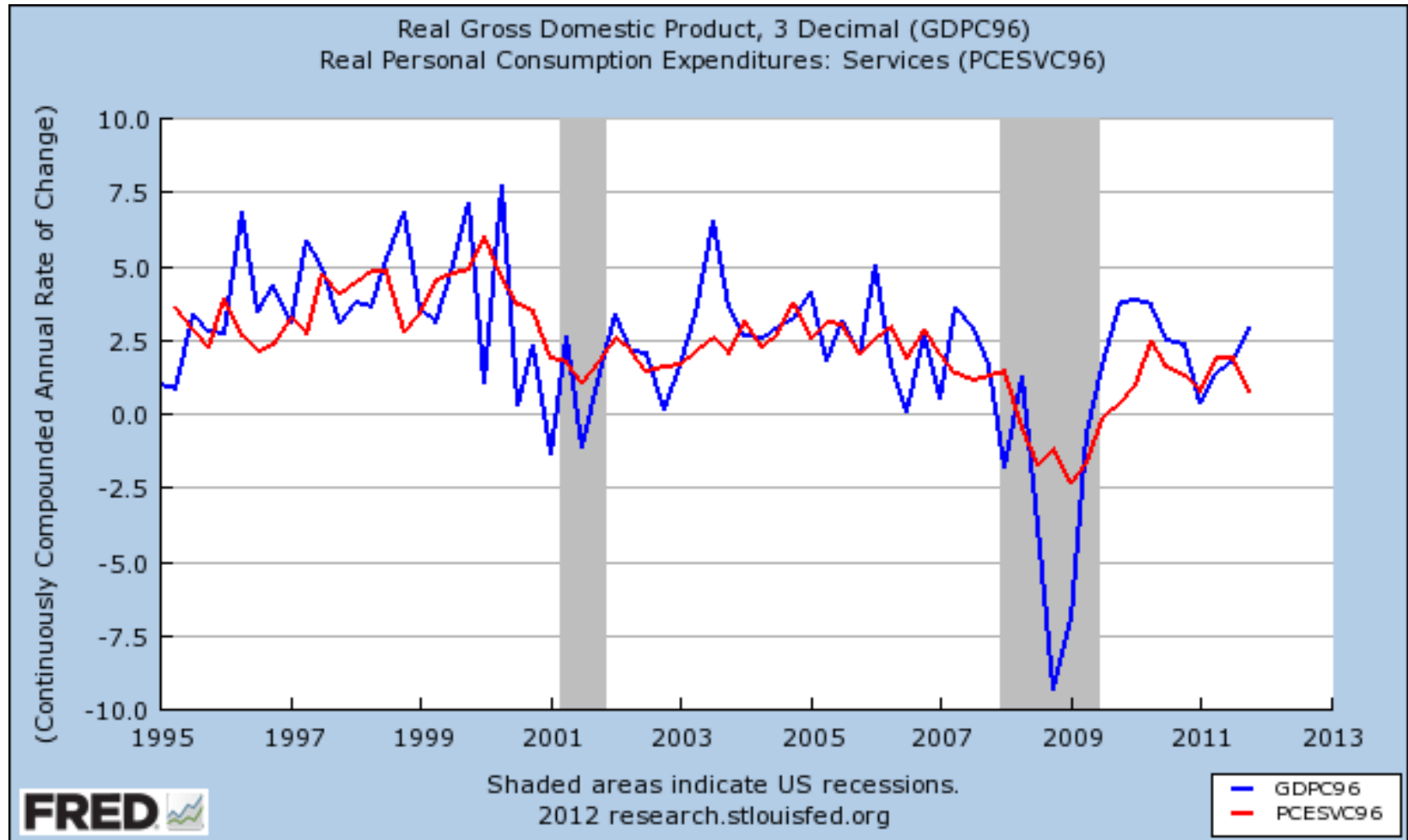
# Change in inventories



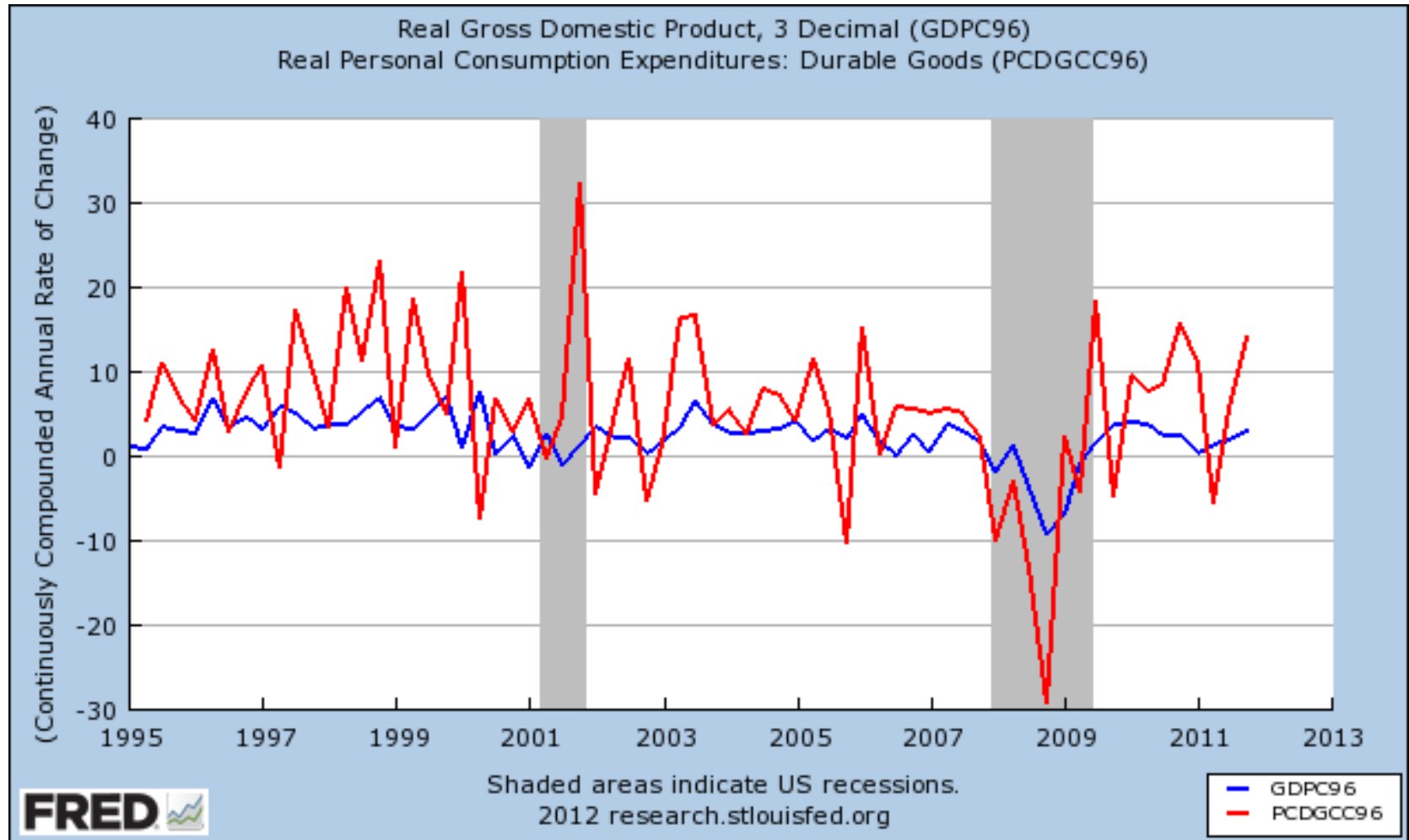
# Consumption: nondurable goods



# Consumption: services

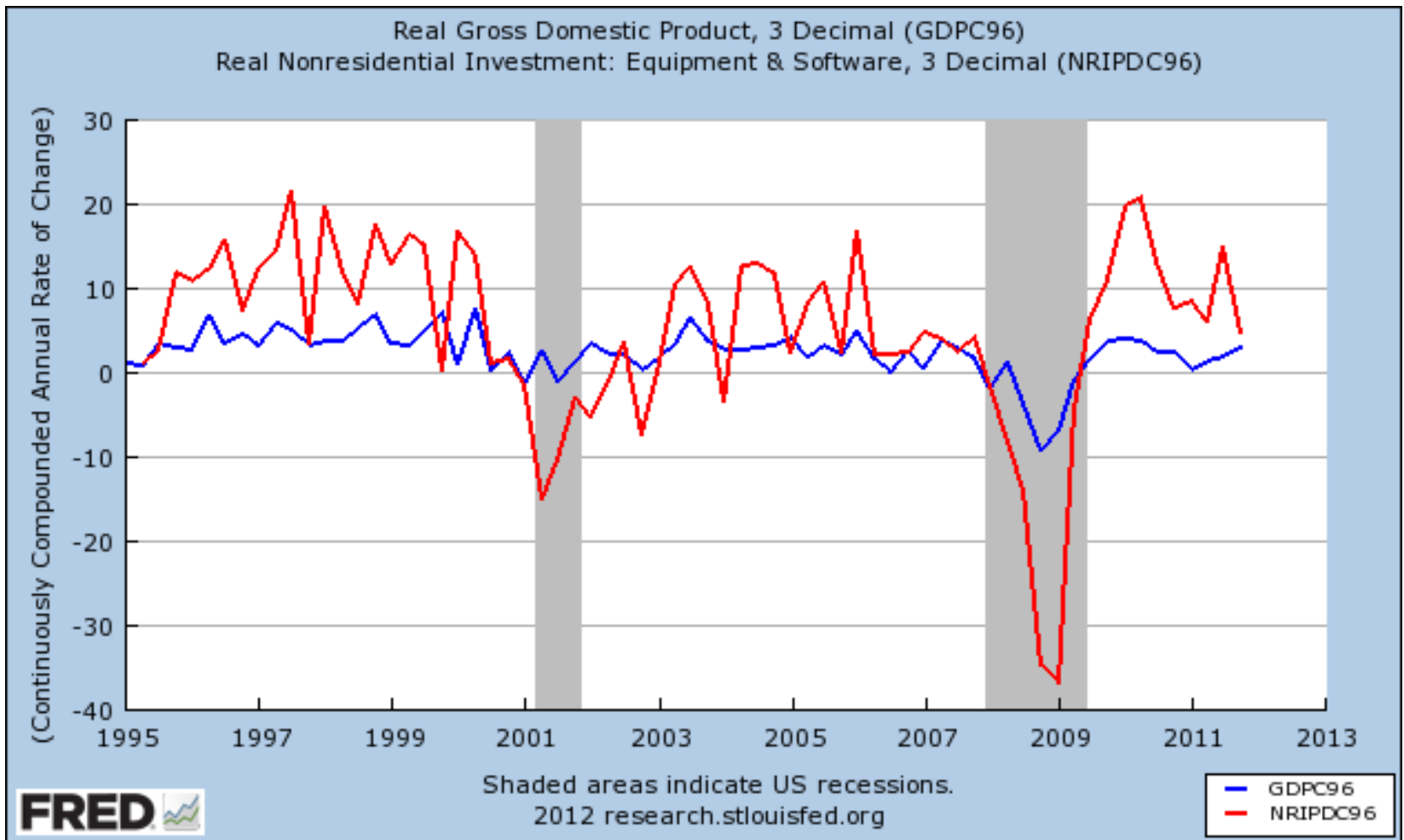


# Consumption: durable goods

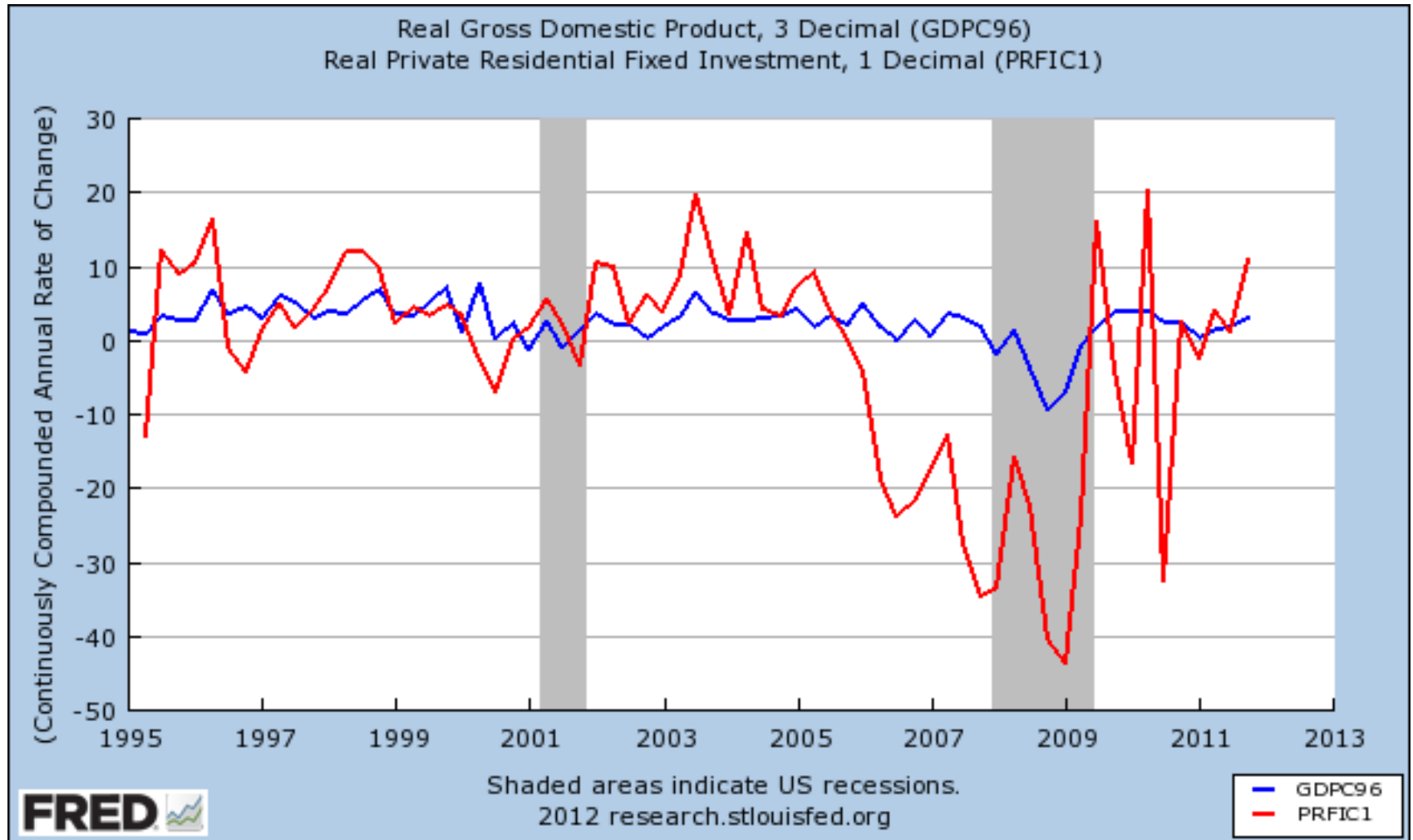




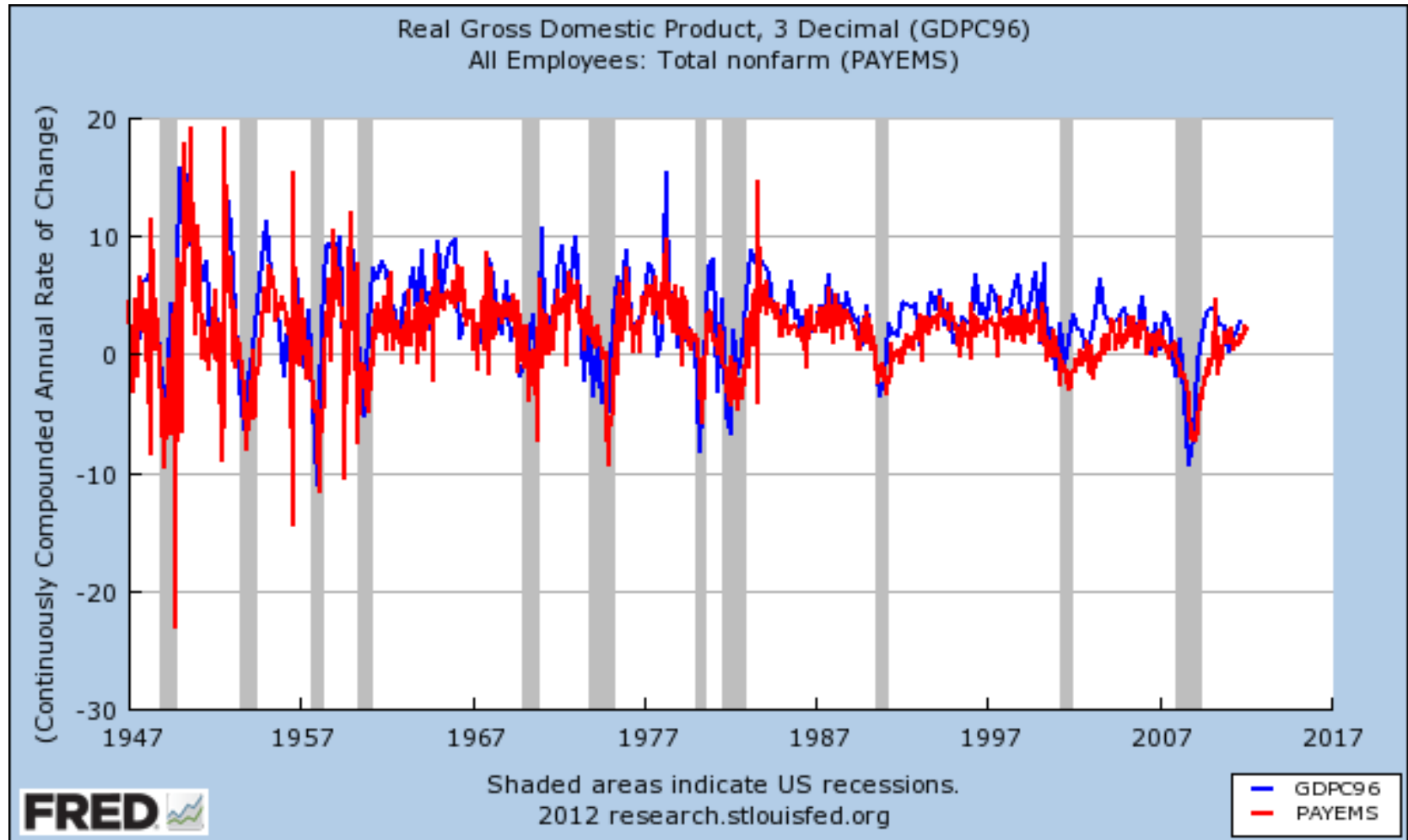
# Investment: equipment & software



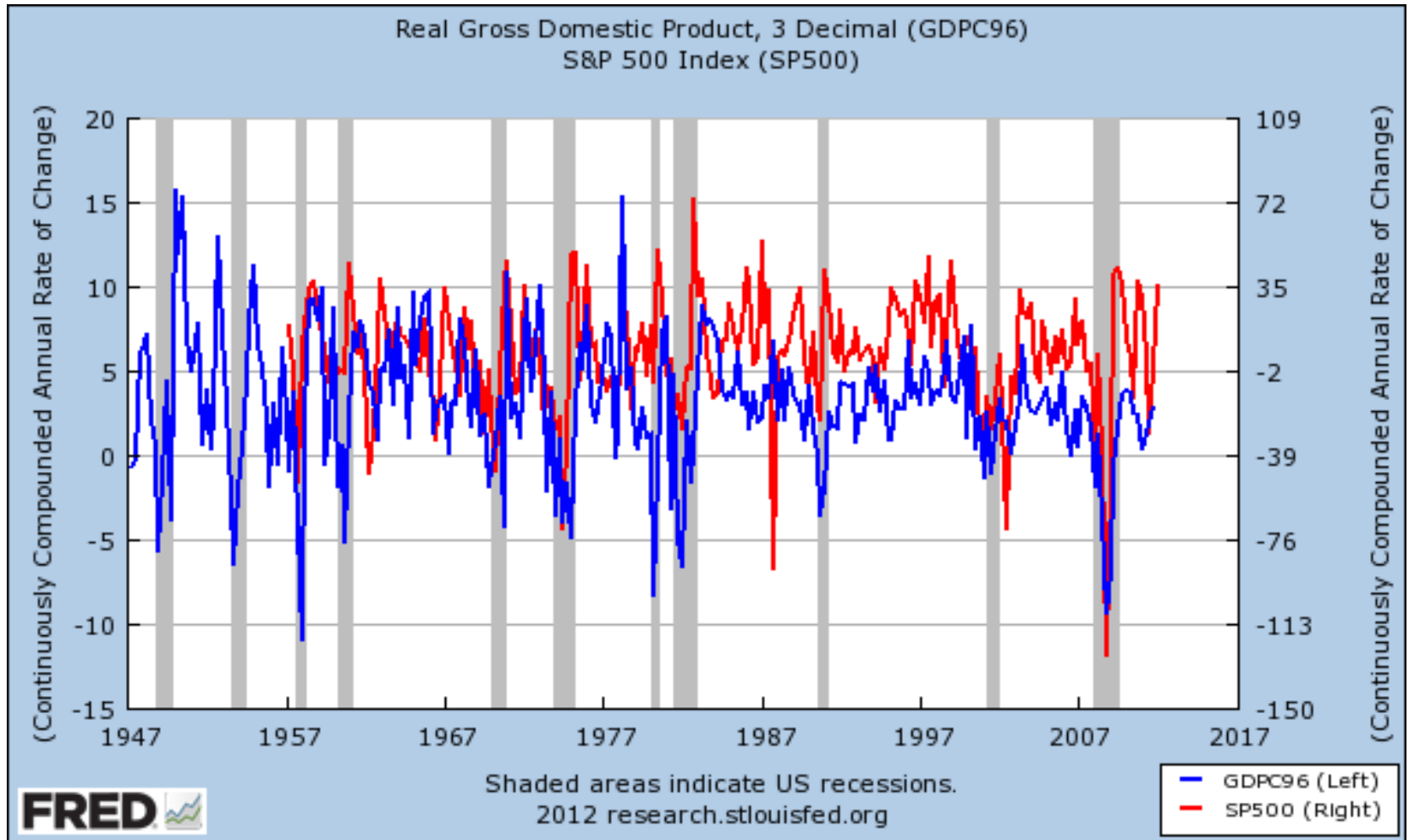
# Investment: housing



# Employment



# S&P 500



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*What's more cyclical?*

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# What's more cyclical?

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

# What's more cyclical?

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

# What have we learned?

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