

McCombs Knowledge To Go



May 8, 2012

An Economic Outlook and School Update



by Dean Tom Gilligan

Knowledge To Go Webinar

- **Goal: Virtually connect alumni to the most current and thought-provoking business knowledge that McCombs has to offer.**

- **Thanking those who've contributed**
 - MBA and BBA/MPA Alumni Advisory Boards
 - Committee Leadership: Neal Meadows, BBA/MPA
 - Faculty Liaison: Jim Nolen
 - Presenters:
 - Lew Spellman, Kevin Williams, Sandy Leeds

Knowledge To Go Webinar

- **Participation**
 - Open to all McCombs alumni and students
 - Average 185 attendees per session

- **Outlining plans for the future**
 - Continue monthly webinars featuring faculty and alumni experts on cutting edge business topics
 - Link with Alumni Affinity Group topic areas
 - Private Equity – Jonathan Spillman
 - Marketing – Erin Patten
 - Energy – Jim Bohart
 - Innovation – Kurt Parekh

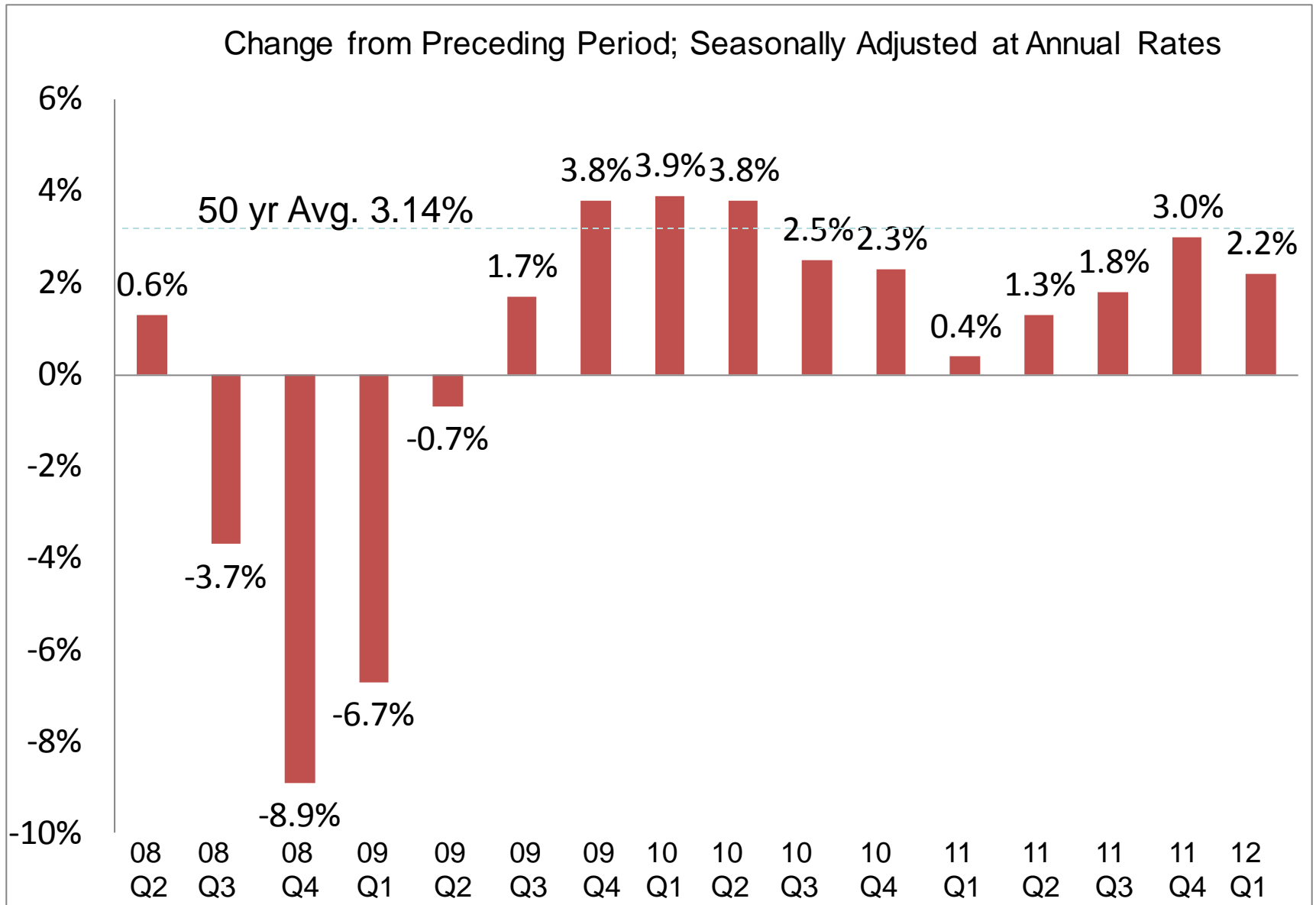
Outline for Today

- **What professional economic forecasters are telling us and why?**
 - Still a very modest recovery
 - Slow employment growth and inflation, but quickening
 - Falling labor participation
- **What's happening at McCombs?**
 - Texas Venture Labs
 - Campaign for Texas
 - Undergraduate Real Estate Certificate
 - UT Energy Poll
 - Proposed New McCombs Degrees
 - Healthcare Symposium
 - Scholarships
- **UT McCombs Front**
 - Budget
 - Going Forward

Economic Forecasts

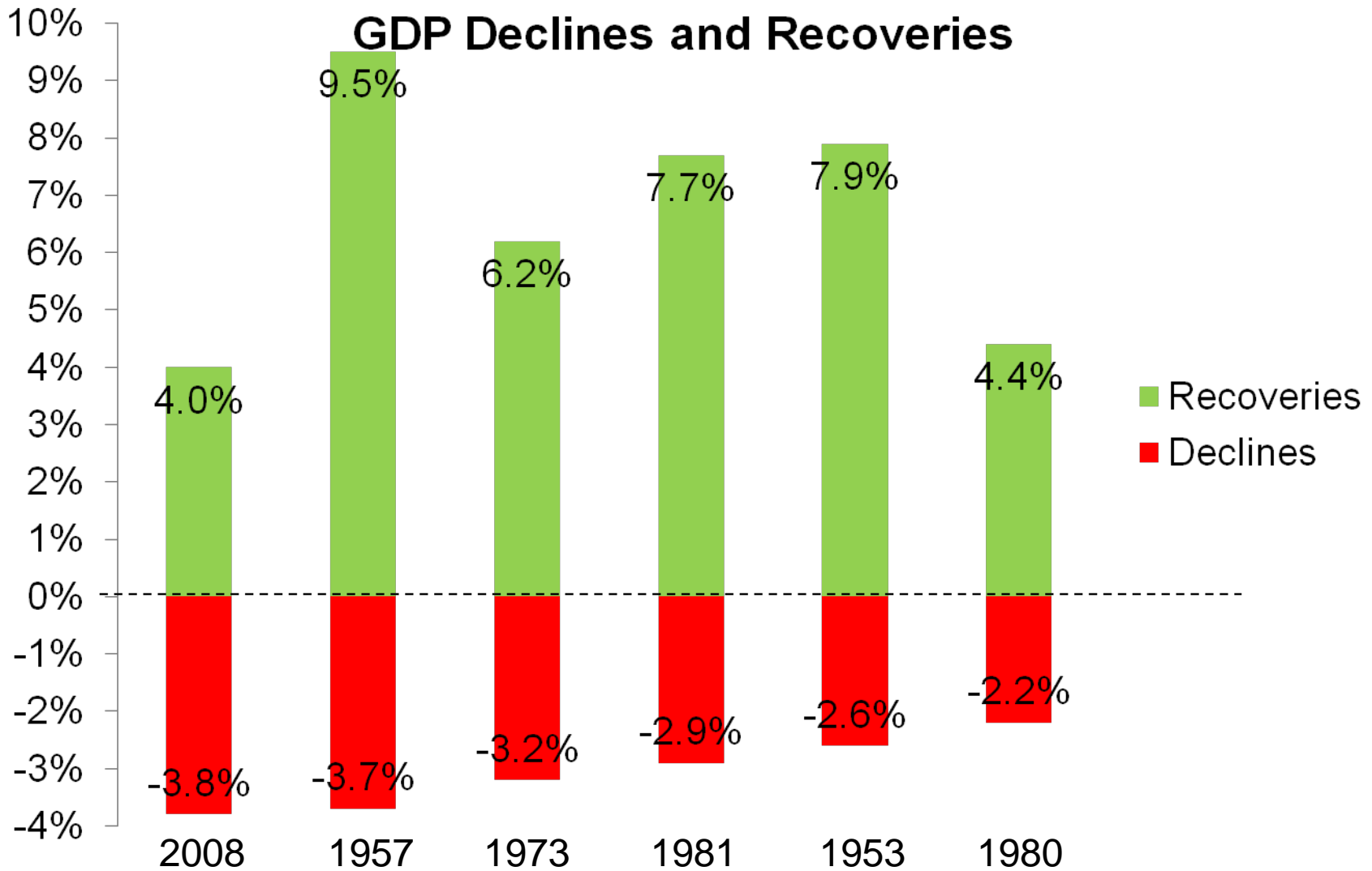
- **Research Department, Federal Reserve Bank of Philadelphia**
 - “Survey of Professional Forecasters”
 - First quarter (Feb. 10, 2012); new survey next week
 - Doing this since 1968
- **42 “Professional Forecasters”**
 - Provide advice used by large commercial institutions
 - Members of National Association for Business Economics (NABE)
 - Use a variety of techniques and assumptions to arrive at forecasts

Real GDP Growth Last 16 Quarters



Source: Bureau of Economic Analysis, April 27, 2012

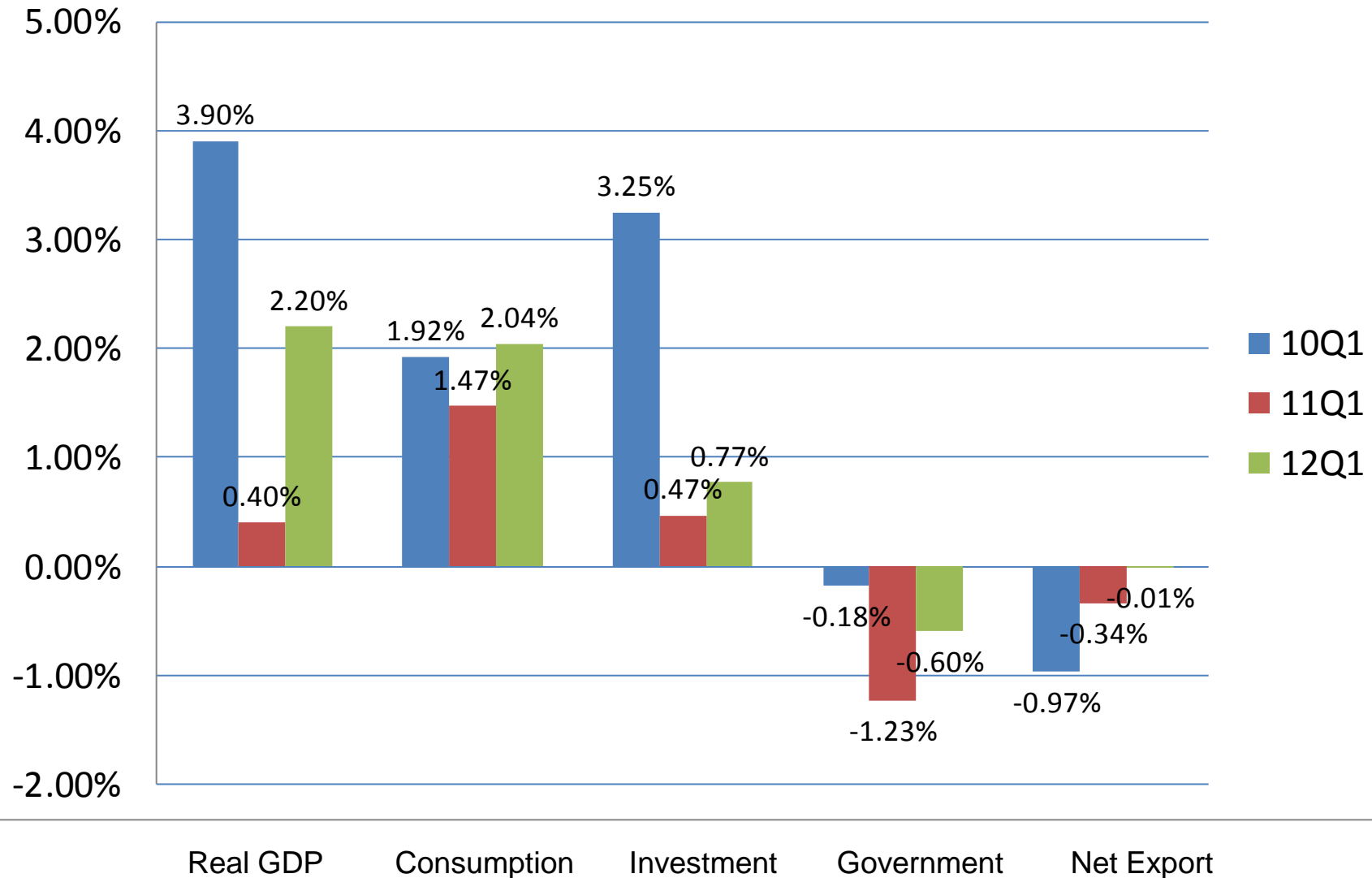
Economic Recoveries in Perspective



GDP declines are measured from peak real GDP to trough GDP
GDP recoveries are growth over subsequent 4 quarters

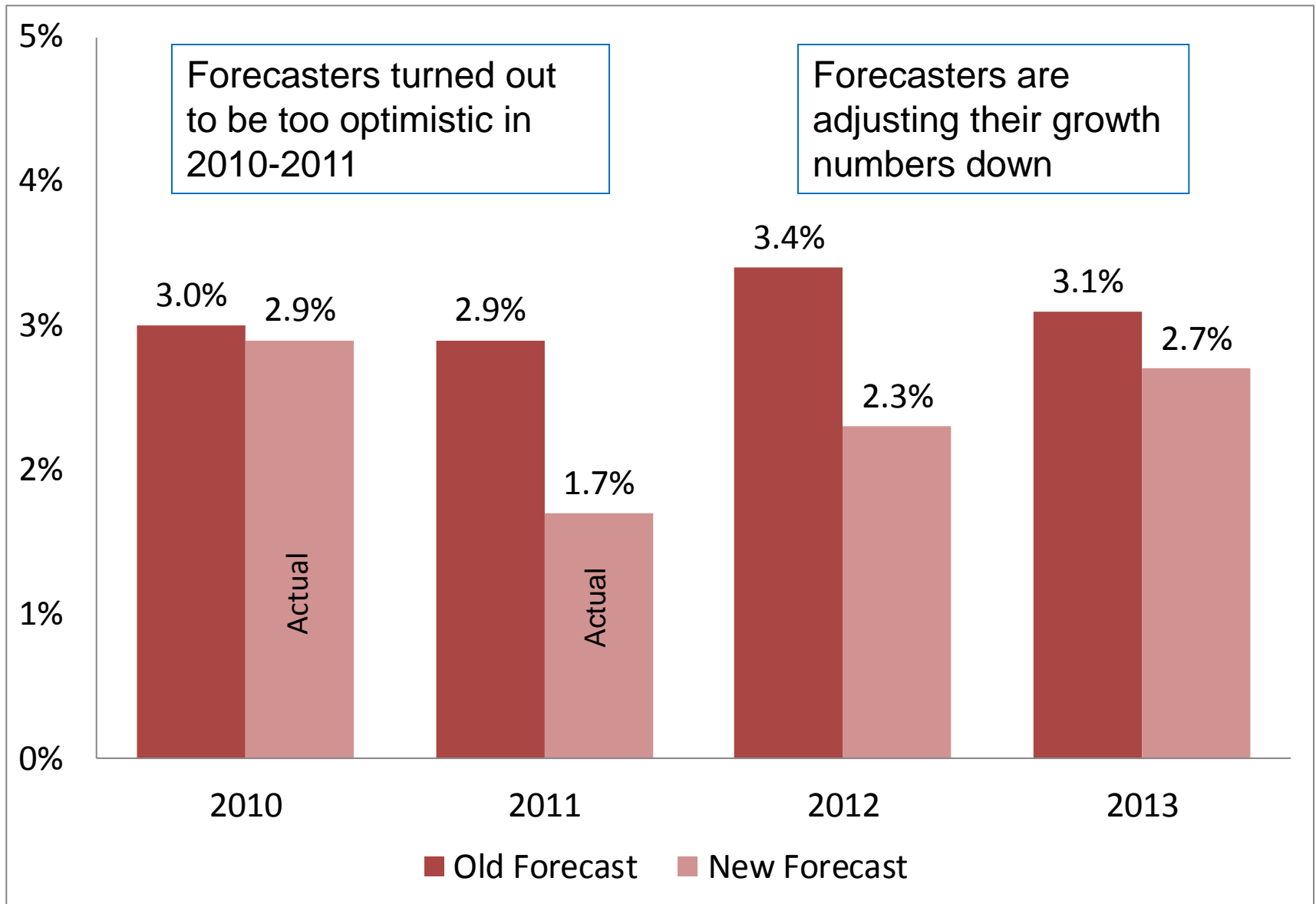
Contributions to Change in Real GDP

Seasonally Adjusted at Annual Rates

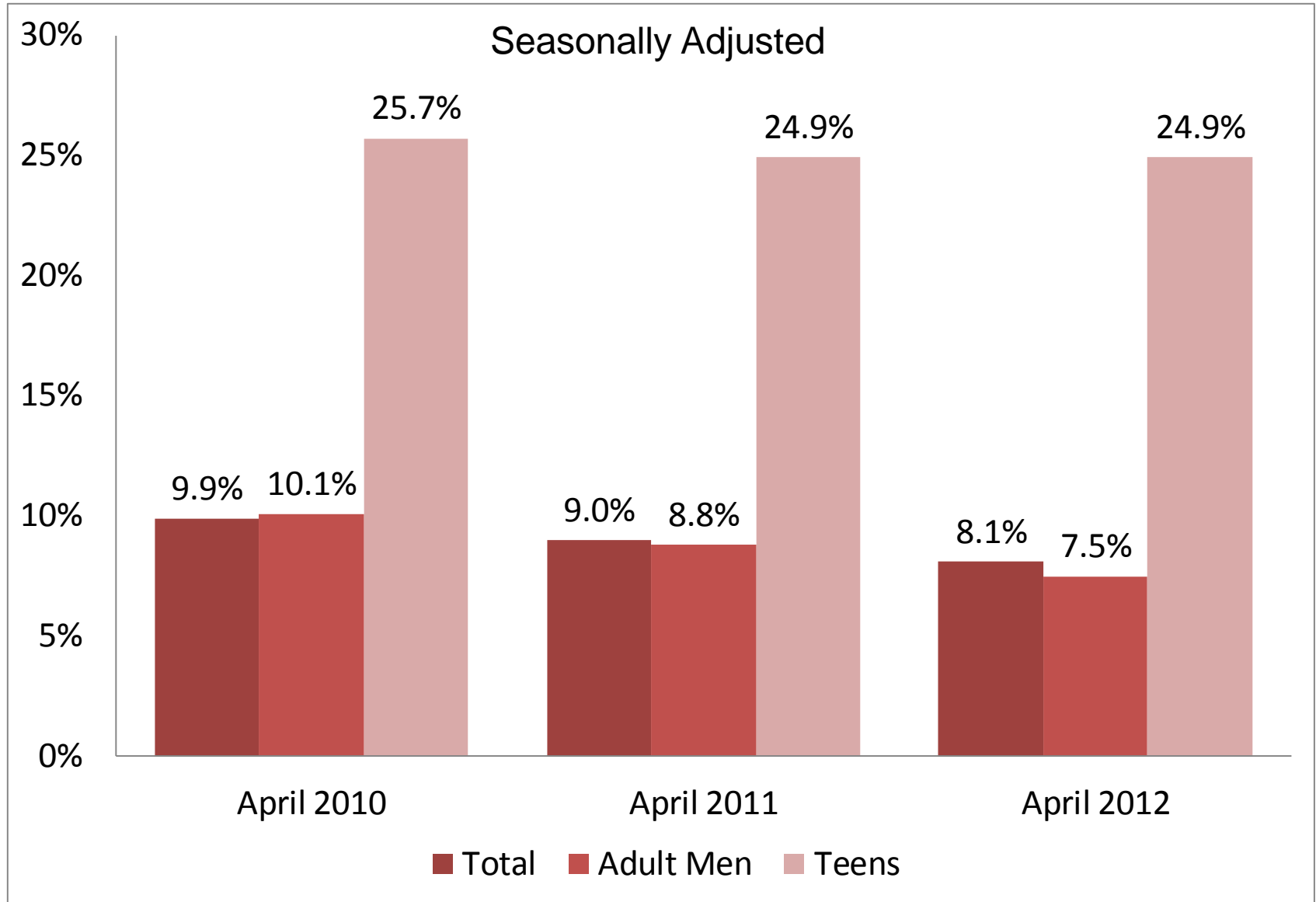


Source: Bureau of Economic Analysis, April 27, 2012

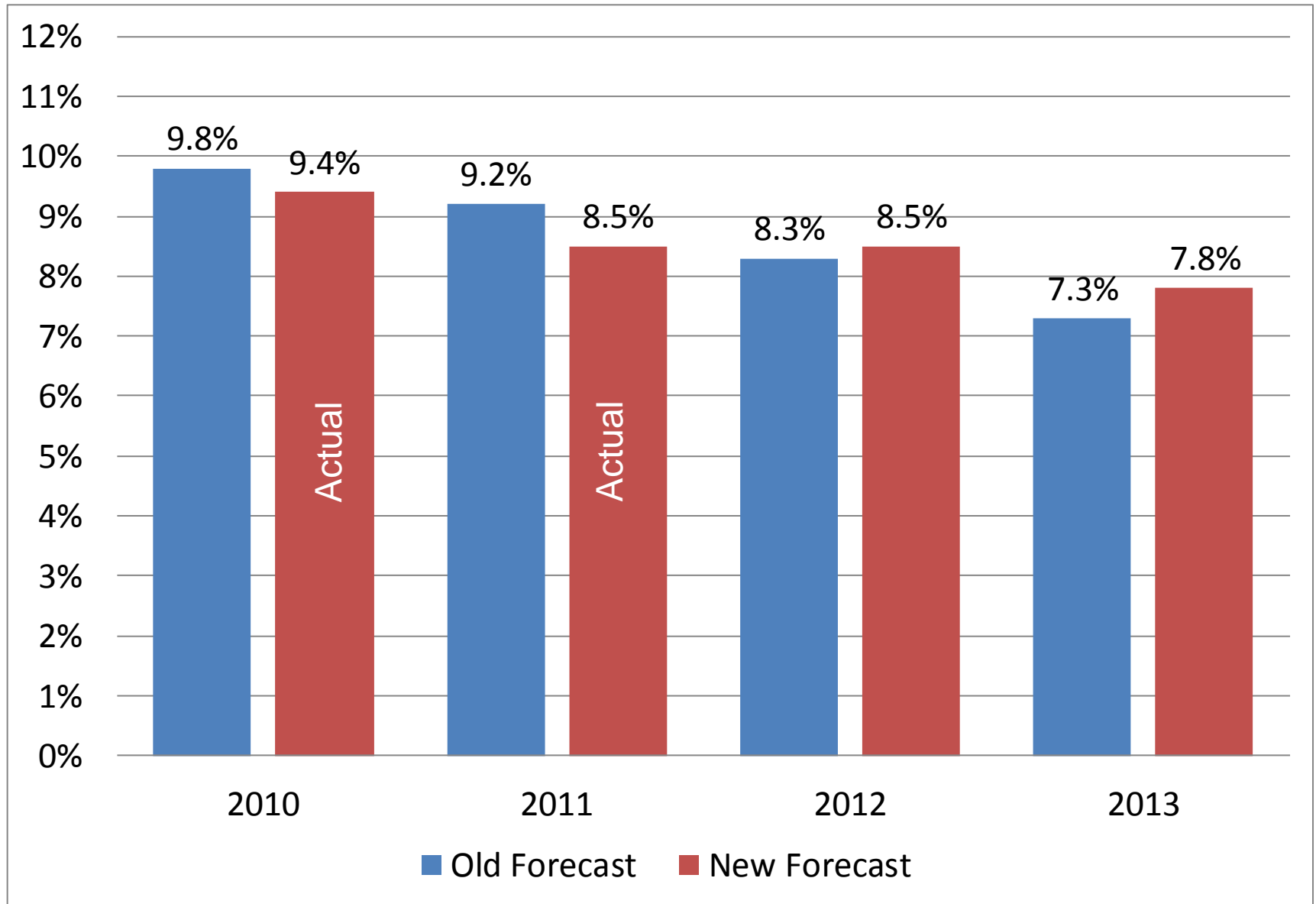
Mean Forecasted Real GDP Growth



Unemployment Rate: Civilian Workforce



Mean Forecasted Unemployment Rate



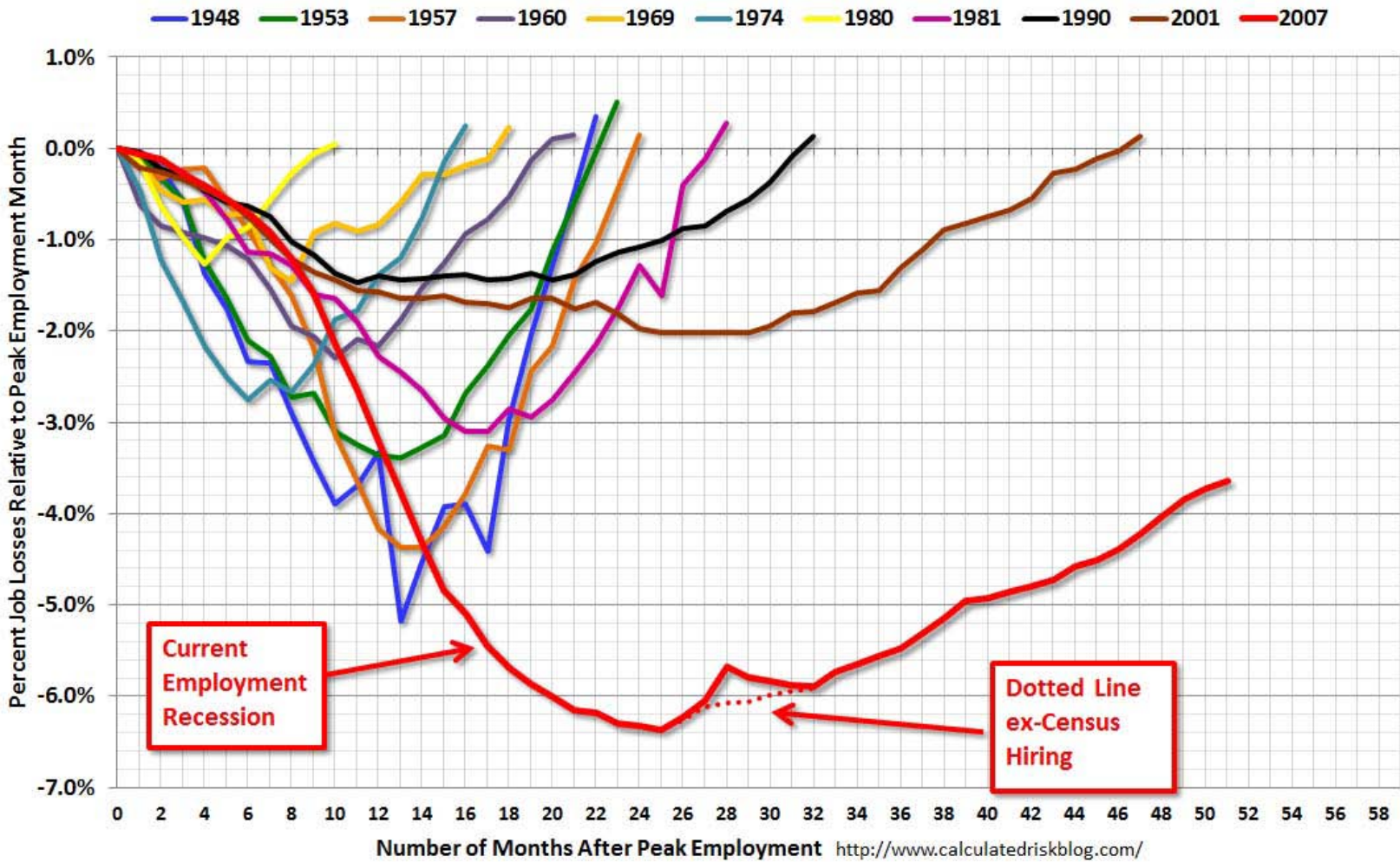
Okun's Rule of Thumb

- **Crude empirical relationship between unemployment and potential GDP growth**
 - Potential GDP growth is typically defined as highest sustainable without accelerating inflation
 - Potential GDP growth approximately 2.00% (controversial)
- **Okun's rule: unemployment declines by 0.5% for every 1% that real GDP grows above its potential**
- **Growing at 3% (4%) it would take about ten (five) years for unemployment to get to 5%**

Labor Force Participation

- **Percentage of Labor Force Employed or Seeking Employment**
 - ~ 66% from 2004-2008
 - ~ 64% now (lowest since 1981)
- **Size of Civilian Labor Force**
 - ~ 154 million people (same past 4 years)
- **Discouraged Workers**
 - Bureau of Labor Statistics estimates number at about 1 million (low end of estimates)
 - Impact is greater for younger workers

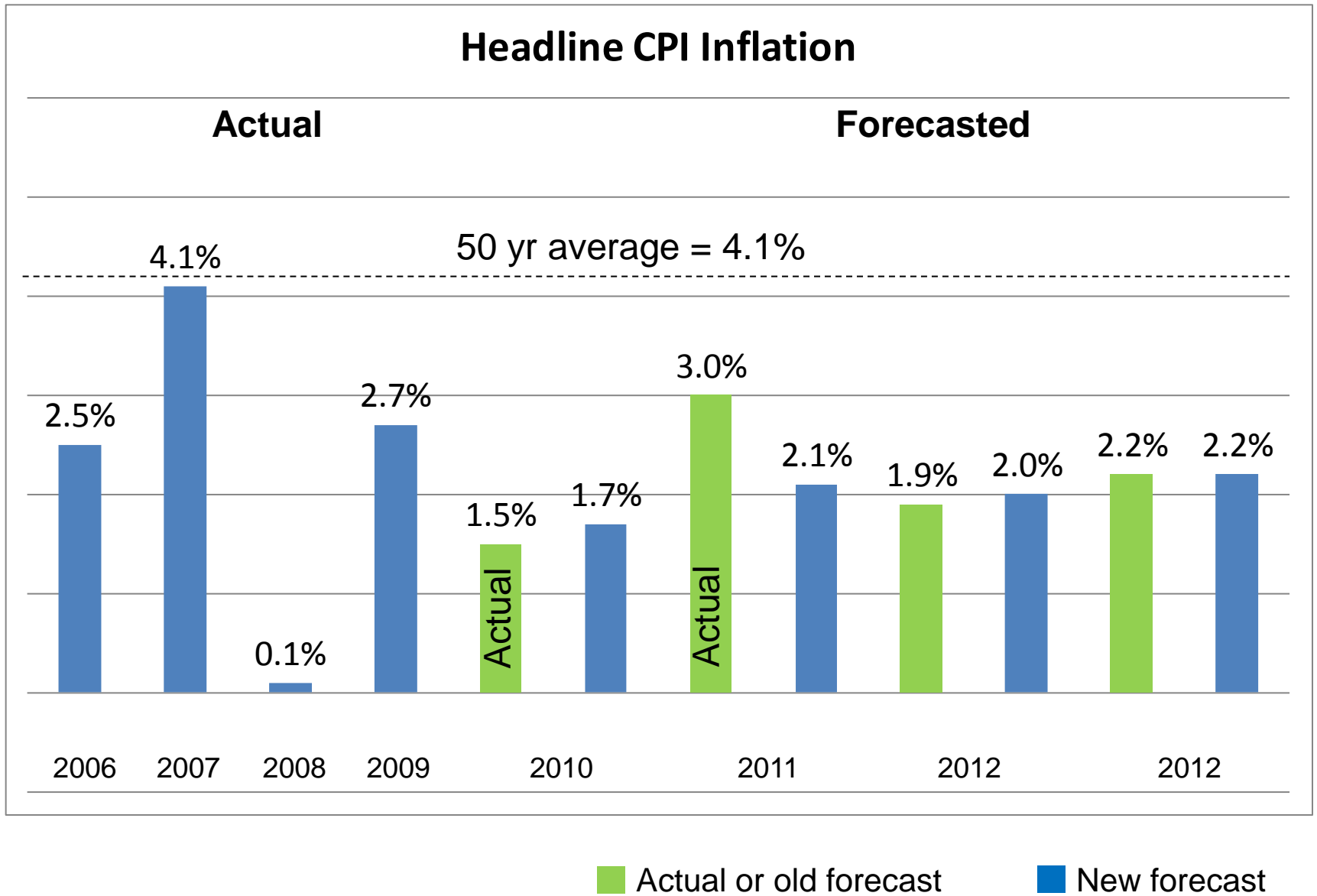
Percent Job Losses in Post WWII Recessions



Current Employment Recession

Dotted Line ex-Census Hiring

Actual and Forecasted Inflation



Summary of Economic Forecasts

- **Economic recovery continues, slowly**
- **Recovery is forecasted to be mild; in the range of 3.0% real GDP growth (slightly down from before)**
- **Unemployment will improve only slightly; at this rate it will be seven to ten years before unemployment reaches the historical average**
- **Inflation will be moderate . . . perhaps!**
 - **Particularly if capacity utilization remains low**
 - **Particularly if house-price deflation continues**

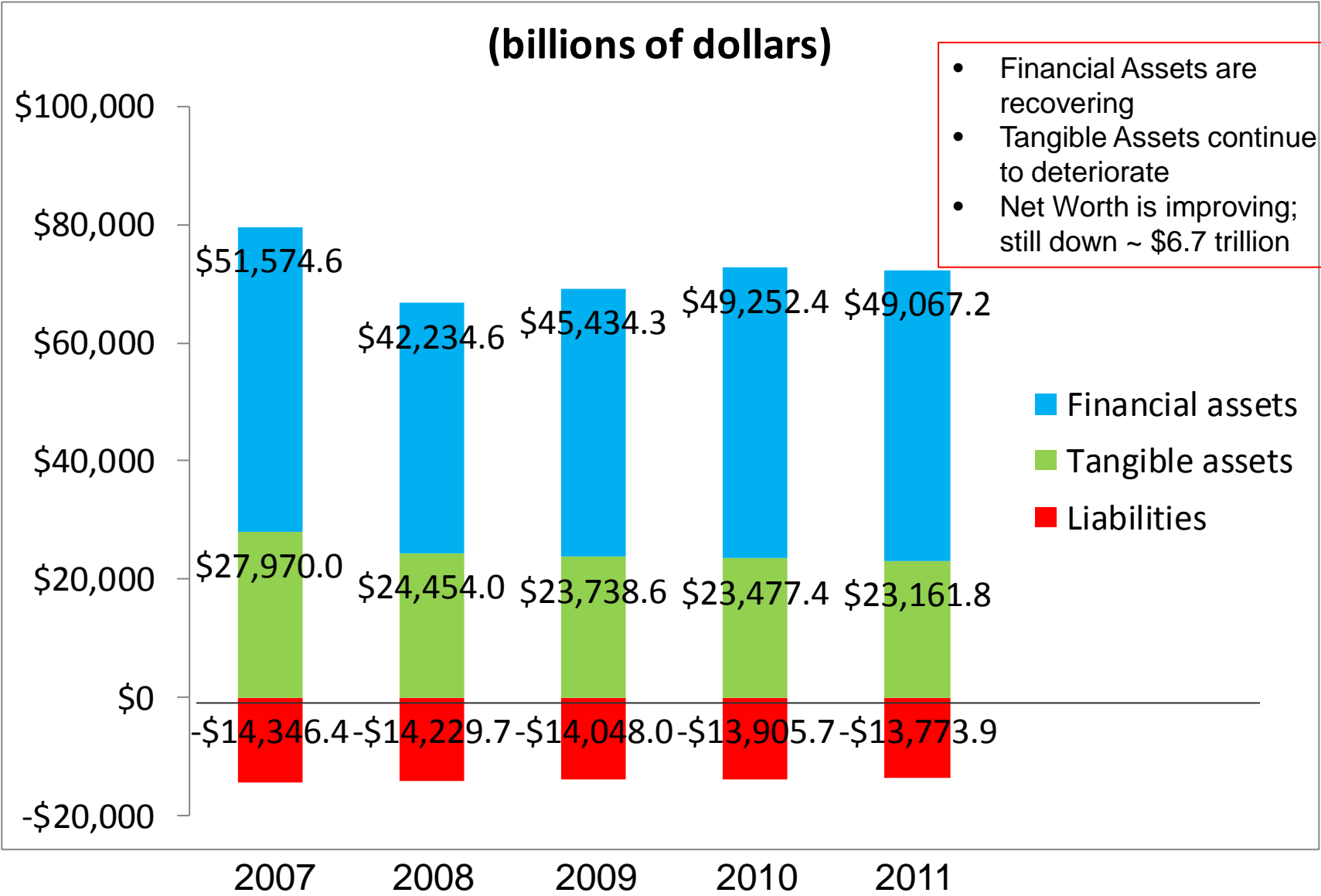
Evidence of Economic Recovery

- Dow is up about 95% over its Spring 2009 low, but still remains 5% below its Fall 2007 high
- Other leading indicators are generally positive
 - Conference Board's Index of leading indicators has risen consistently since March 2009
- Retail sales of new passenger cars and trucks continue to increase year-over-year, but remain about 10% lower than the previously typical annual level (14.5 versus 16 million units): Kelly Blue Book
- Actual sales of recreation vehicles in 2011 were about 70% of those in 2007 (252.3 versus 353.4 thousand units; 165.7 in 2009); Recreational Vehicle Industry Association

Why the predicted slow growth

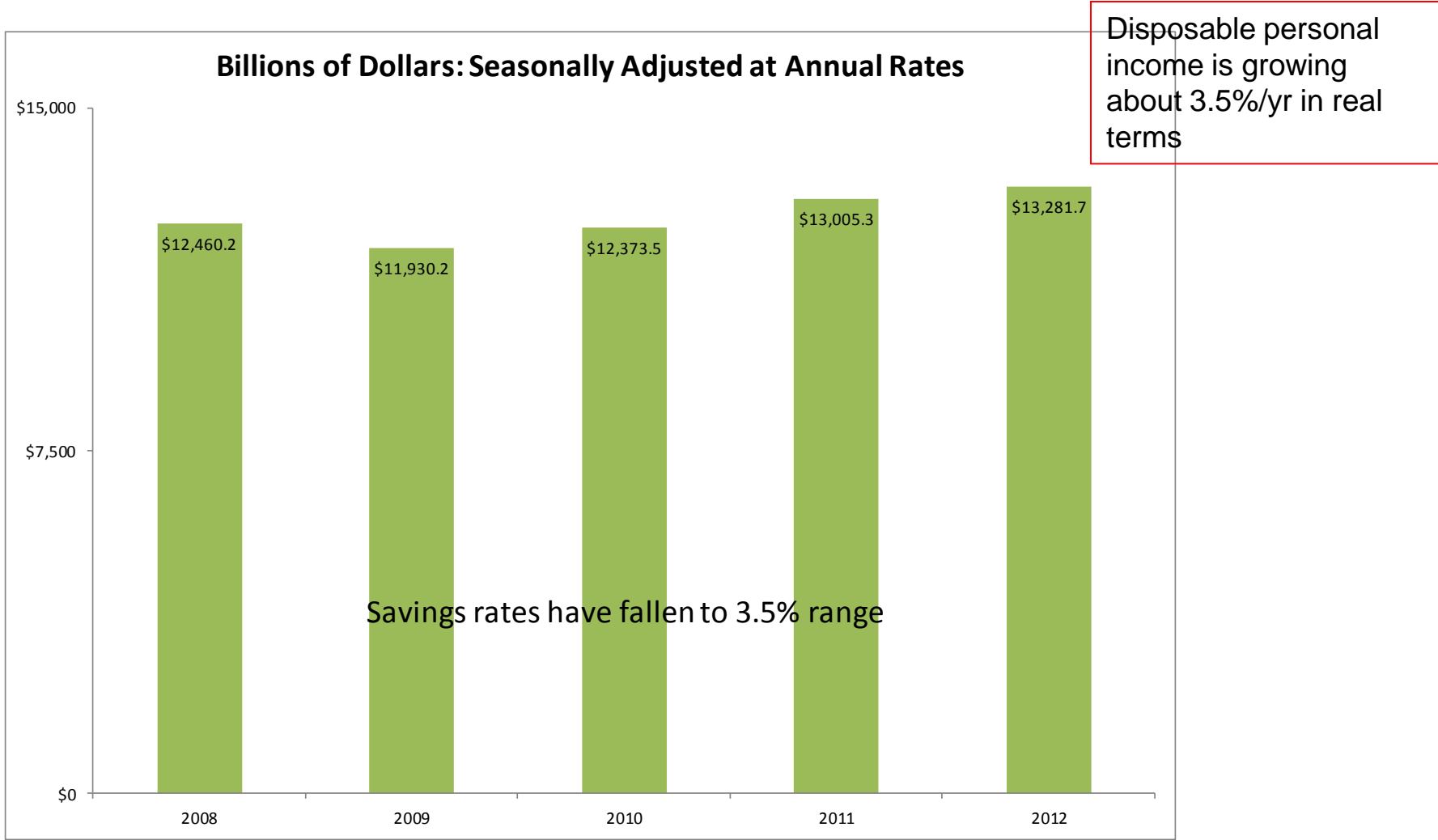
- **Household wealth, income, and personal consumption expenditures**
 - Consumers are recovering and deleveraging
 - Business investment keys off them
- **Economic recovery in the wake of a financial crisis**
 - Excessive leverage retards growth, limits the effectiveness of monetary policy, and constrains fiscal policy
 - U.S. indebtedness of all forms (households, corporate, government) quadrupled from 1980-2010

Balance Sheet of U.S. Households



Source: Board of Governors, Federal Reserve System Flow of Funds Accounts, March 8, 2012

Personal Income of U.S. Households



Why households won't lead robust recovery

- Higher savings rates reduced spending (7.5% to 3.5%)
- Negative wealth effects (particularly in real estate)
- Extreme caution; tougher credit conditions
- Slow growth in personal income
 - But getting better (from less than zero to 3.5%)
- Potential relief
 - Stock market roars back
 - Housing prices rebound quickly
 - Forecast is for continued trouble in residential housing markets
 - Growth in exports markets (But where?)

Is there a “New Normal”

■ Cause

- De-globalization
- Wealth destruction
- De-leveraging pressures
- Increased government regulation

■ Effects

- Slower global economic growth
- Higher savings rates
- Lower consumer spending
- Constraints in financial intermediation

What's Happening at McCombs?

- **Texas Venture Labs**
 - \$6 million gift from Jon Brumley, which supports...
- **Campaign for Texas**
 - McCombs reached \$100 million milestone in donations
- **Undergraduate Real Estate Certificate Program**
 - Raised \$3.2 million of the \$4.0 million needed
- **University of Texas Energy Poll**
 - Release of second poll results April 10-11, 2012

What's Happening at McCombs?

- **New McCombs Masters Degrees**
 - Masters of Finance – Fall 2012
 - Masters of IROM, concentration in Business Analytics – Fall 2013
- **Healthcare Symposium: Doing More With Less**
 - Third annual symposium held April 26-27, 2012
- **Scholarship Initiative**
 - Raised \$4.25 million to date
 - One 40 Acre (full-ride) Scholarship
 - 9 McCombs Presidential Scholarships
 - 10 McCombs Dean's Scholarships

UT McCombs Front

■ Budget

- 15% reduction in state support
- Undergraduate tuition freeze
- Effect on McCombs

■ Going Forward

- Still striving to “educate leaders that generate value for society”
- Still striving to sustain our reputation as one of the world’s most prominent business schools
- New Masters Programs
- Growth in graduate programs

Upcoming Webinars

■ May

- May 17 – Tips and Tricks in PowerPoint 2010 – Part 2 – A Career Webinar with Ben Bond, BBA '99

■ June

- June 12 – Our Turn Campaign – A Knowledge To Go Webinar with Ed Tonkon, BBA '78 and Keary Kinch, BA '86



Jeffrey Matthew Bock

August 16, 1972 – April 29, 2012

Jeffrey Matthew Bock, 39, of Austin, was born to Walter and Ruth Bock, August 16, 1972, in Appleton, WI. Jeff graduated from Fox Valley Lutheran High School in 1991, received a BS in Chemical Engineering from the University of Wisconsin in 1996 and a MBA from The University of Texas in 2003. He married Tonya Tesch Bock in 1996.

Jeff was a Global Marketing Director at Freescale Semiconductor. He was a past President of the local University of Wisconsin Alumni club in Austin and was Chair-Elect of the UT McCombs School of Business MBA Alumni Advisory Board.

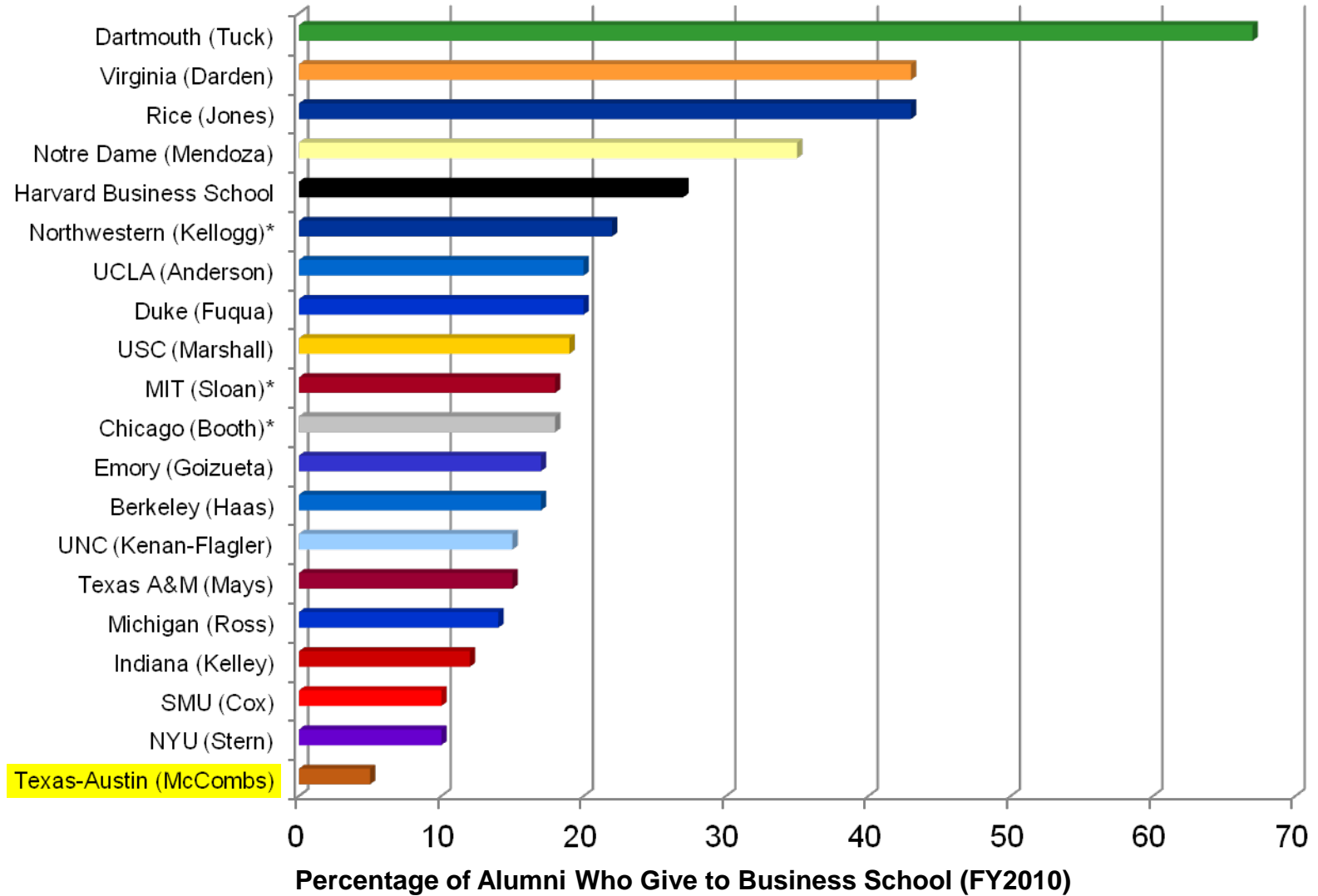
He is survived by his wife, Tonya, of Austin; his mother, Ruth Bock Neeck, of Menasha, WI; his twin brother Jonathan (Cristin) Bock and his family, of Wauwautosa, WI, and his older brother David Bock and his family, of Germantown, WI.

In lieu of flowers, the family is requesting that donations be made out to the scholarship fund of the local chapter of the University of Wisconsin Alumni Club at uwalumni.com/austin.



Please Give Back to McCombs!

Percentage of Alumni Giving



Please Give Back to McCombs!

This webinar has been brought to you by the McCombs MBA & BBA Alumni Advisory Boards, coordinated by alumni for the benefit of the Alumni Network.

Please get involved with the Alumni Network!

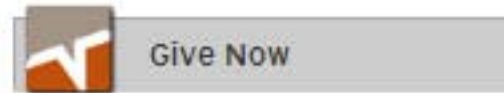
All alumni benefit when we work together to build the quality and value of the Alumni Network and the McCombs brand.

Time: Get involved in your local club

Talent: Mentor another alumni or speak at a future webinar

Treasure: Make a donation to McCombs

www.mcombs.utexas.edu/alumni



Suggested fund: ***MBA or BBA Alumni Excellence Funds***

Please use response code ***KTG***

Online survey link: https://mcombs.qualtrics.com/SE/?SID=SV_25db49vpCEvTUws

Send feedback to the us -- alumni@mcombs.utexas.edu