McCombs Knowledge To Go

May 14, 2013

An Economic Outlook and School Update

by Dean Tom Gilligan

McCOMBS KNOWLEDGE TO GO

Knowledge To Go Webinar

- **Participation**
  - Open to all McCombs alumni and students
  - Average 125 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
    - Energy, M. Saleem Akhtar
    - Innovation, Ken Parekh
    - **New Affinity Group: Technology, Christopher Best**

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: Jim Bohart, MBA and Neal Meadows, BBA/MPA
  - Faculty Liaison: John Doggett
  - Presenters:
    - John Daly, Michael Webber, Sheril Kirshenbaum
    - **Coming September 24, 2013: Admiral Inman**

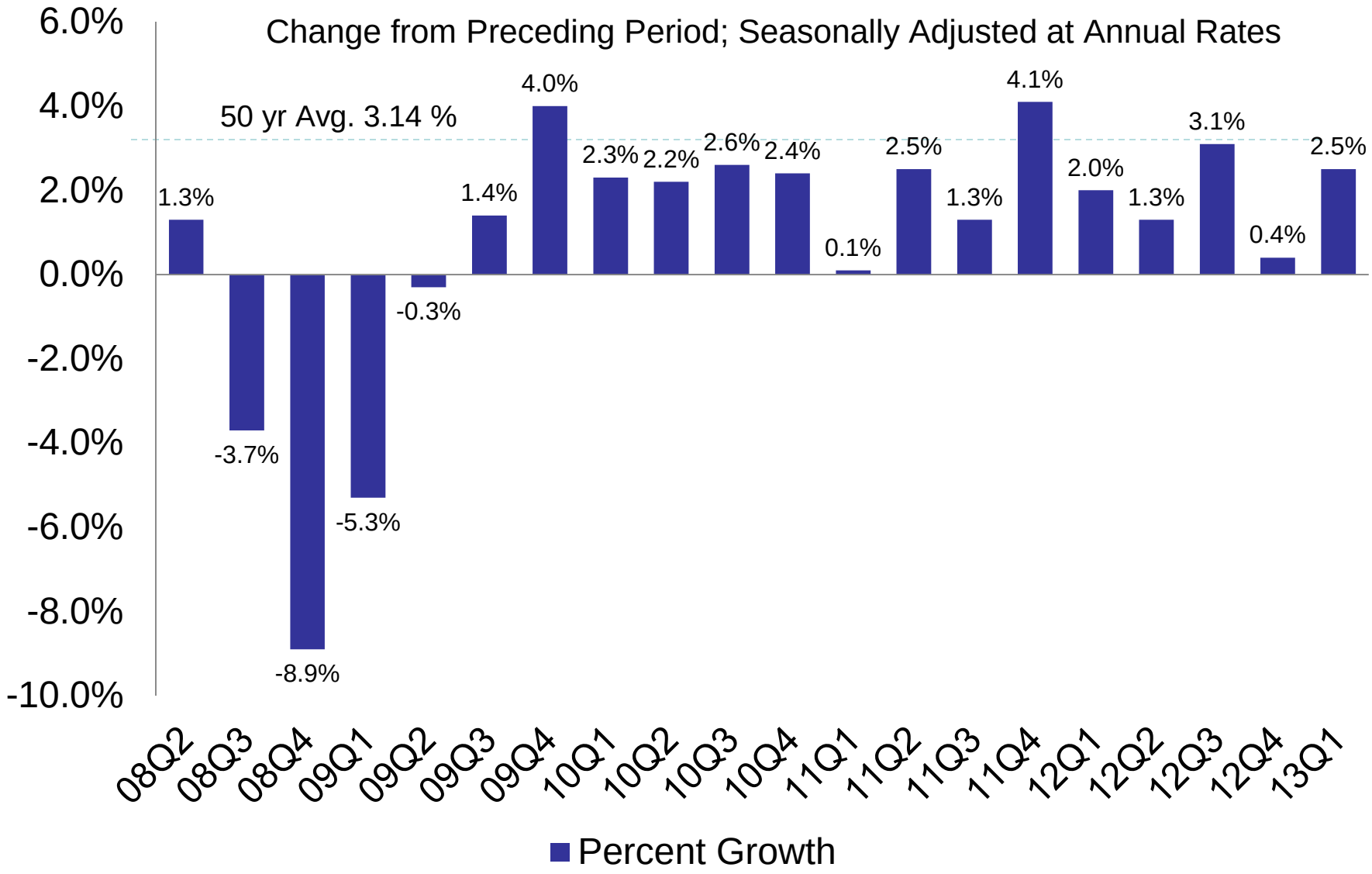
Outline for Today

- **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 and Energy Management Certificates
  - UT Energy Poll
  - New McCombs Degrees
  - Healthcare Symposium
  - Scholarships
  - Rowling Hall
- **UT McCombs Front**
  - Budget
  - Going Forward

Economic Forecasts

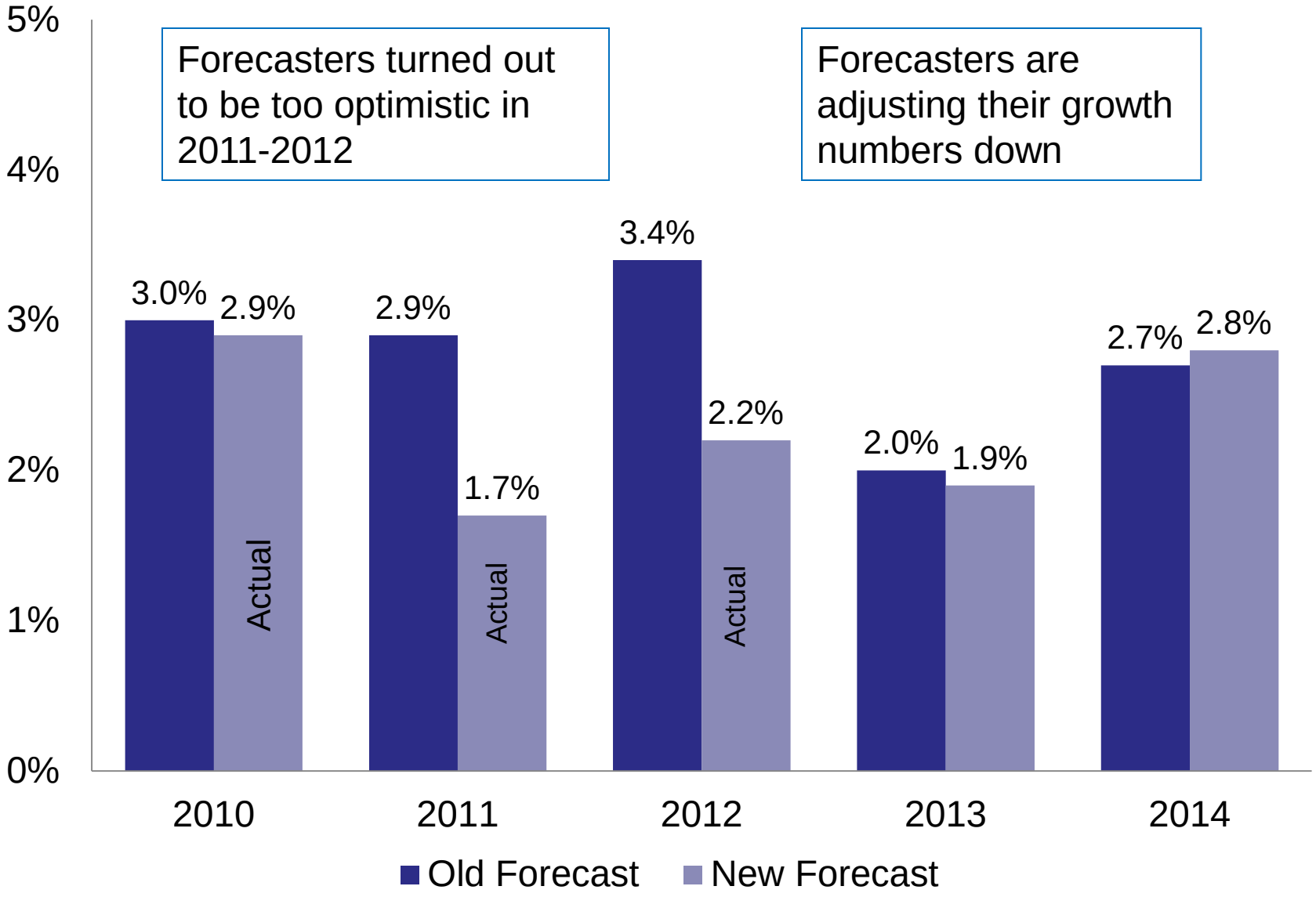
- **Research Department, Federal Reserve Bank of Philadelphia**
  - "Survey of Professional Forecasters"
  - First quarter (Feb. 15, 2013); new survey next week
  - Doing this since 1968
- **46 "Professional Forecasters"**
  - Provide advice used by large commercial institutions
  - Members of National Association for Business Economics (NABE)
  - Use a variety of techniques and assumptions to arrive at forecasts

Real GDP Growth Last 20 Quarters



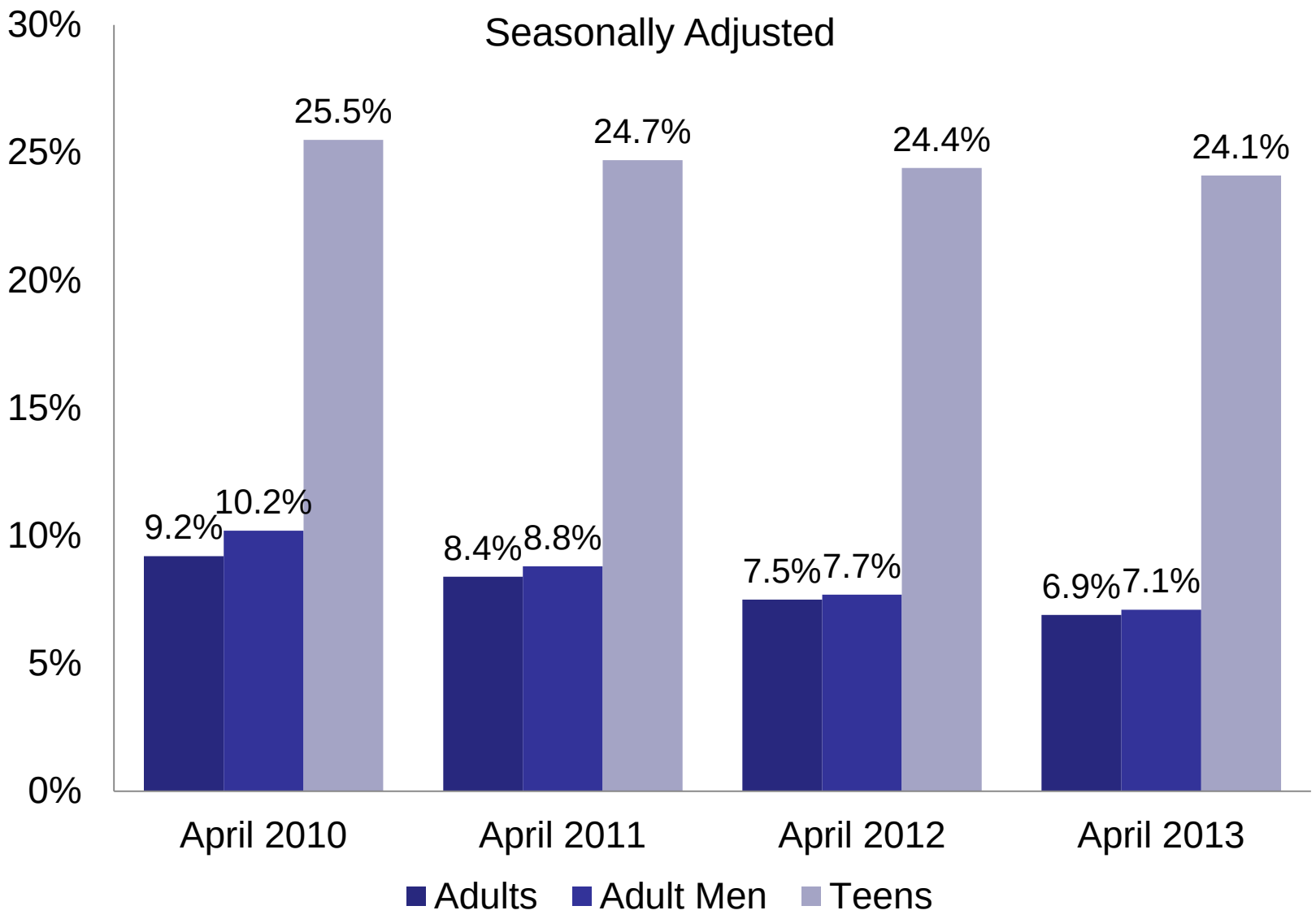
Source: Bureau of Economic Analysis, April 26, 2013

Mean Forecasted Real GDP Growth



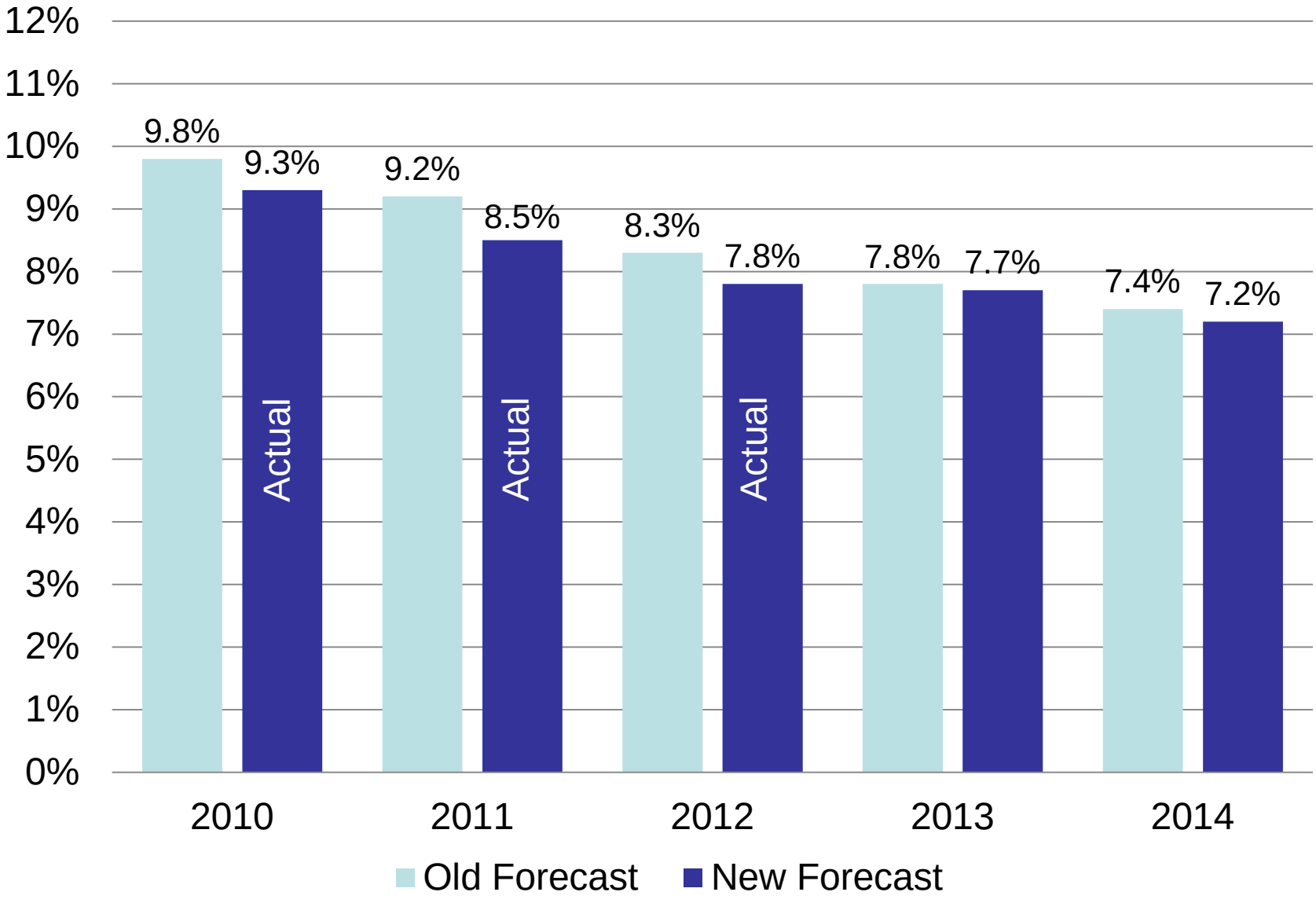
Source: Federal Reserve Bank of Philadelphia

Unemployment Rate: Civilian Workforce



Source: Bureau of Labor Statistics, May 6, 2013

Mean Forecasted Unemployment Rate



Source: Bureau of Labor Statistics and Federal Reserve Bank of Philadelphia

Okun's Rule of Thumb

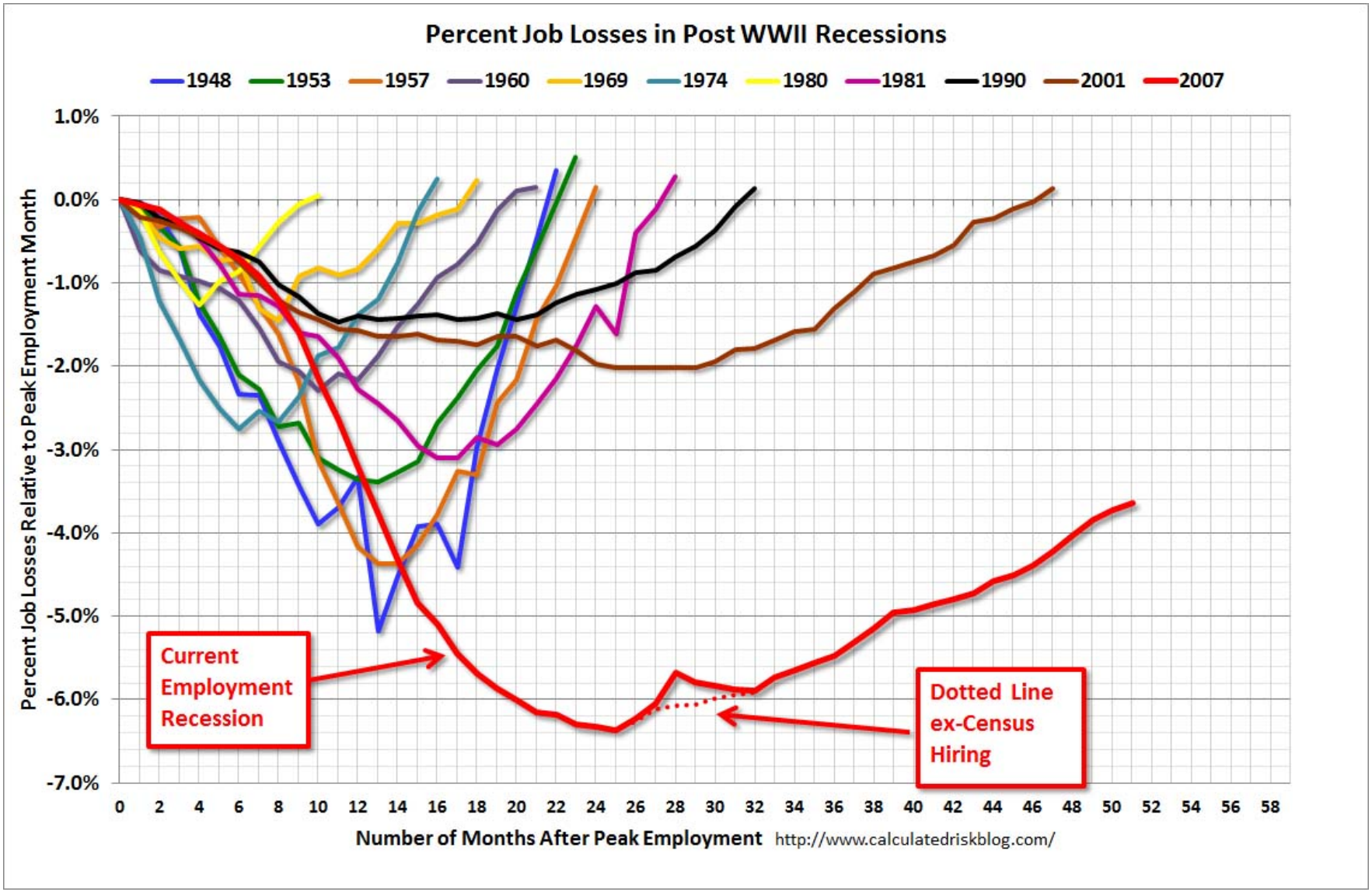
- **Crude empirical relationship between unemployment and potential GDP growth**
  - Potential GDP growth is typically defined as highest sustainable without accelerating inflation
  - Potential GDP growth approximately 2.00% (controversial)
- **Okun's rule: unemployment declines by 0.5% for every 1% 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

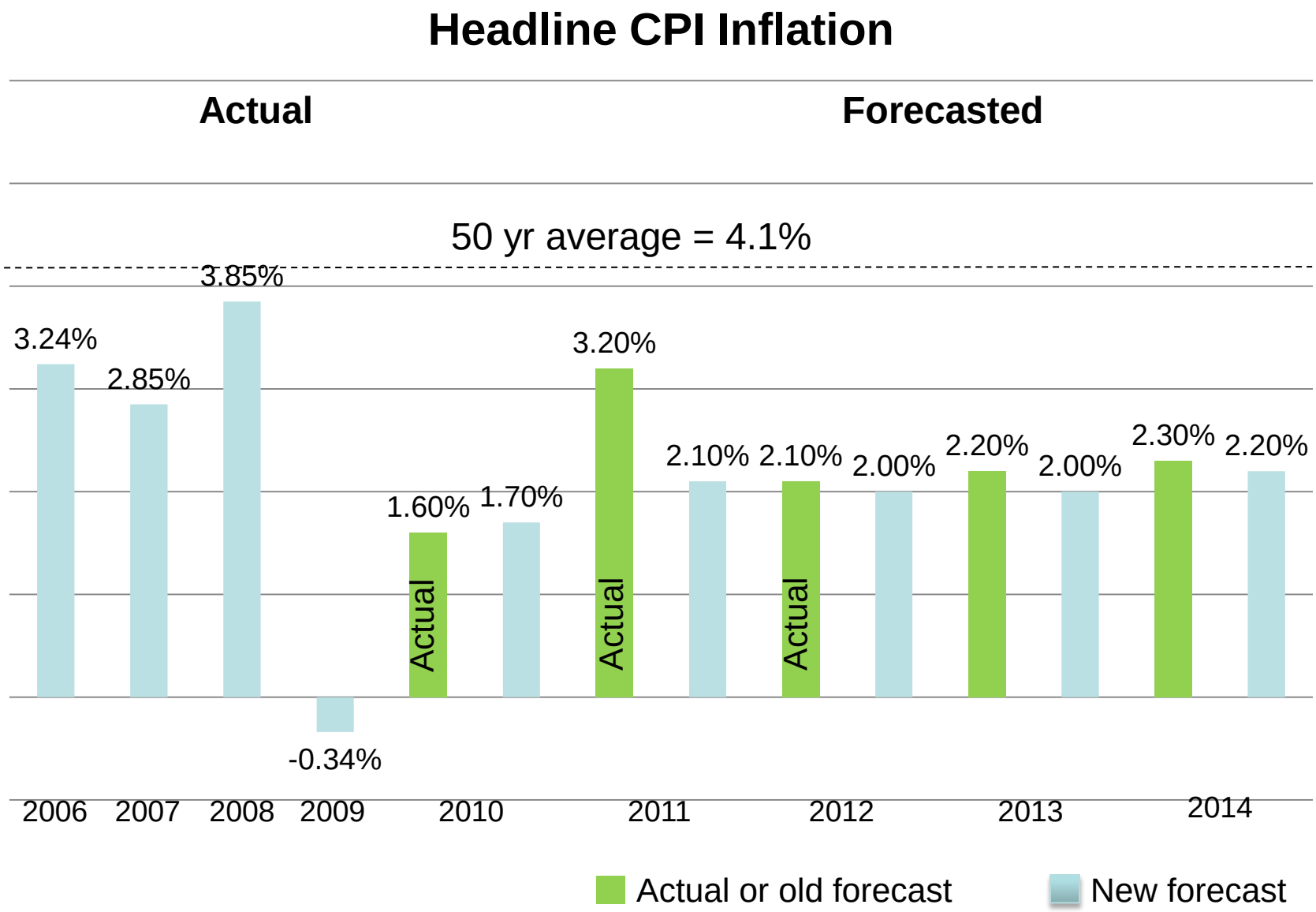
- **Percentage of Labor Force Employed or Seeking Employment**
  - ~ 66% from 2004-2008
  - ~ 63% now (lowest since 1981)
- **Size of Civilian Labor Force**
  - ~ 155 million people (same as October 2008)
- **Discouraged Workers**
  - Bureau of Labor Statistics estimates number at about 1 million (low end of estimates)
  - Impact is greater for younger workers
  - Demographics (e.g., retiring baby boomers)

Source: Bureau of Labor Statistics, May 8, 2013

Historical Perspective



Actual and Forecasted Inflation



Source: Bureau of Labor Statistics and Research Dept. FRB of Philadelphia

Summary of Economic Forecasts

- **Economic recovery continues, slowly**
- **Recovery is forecasted to be mild; less than 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**
  - Particularly if capacity utilization remains low

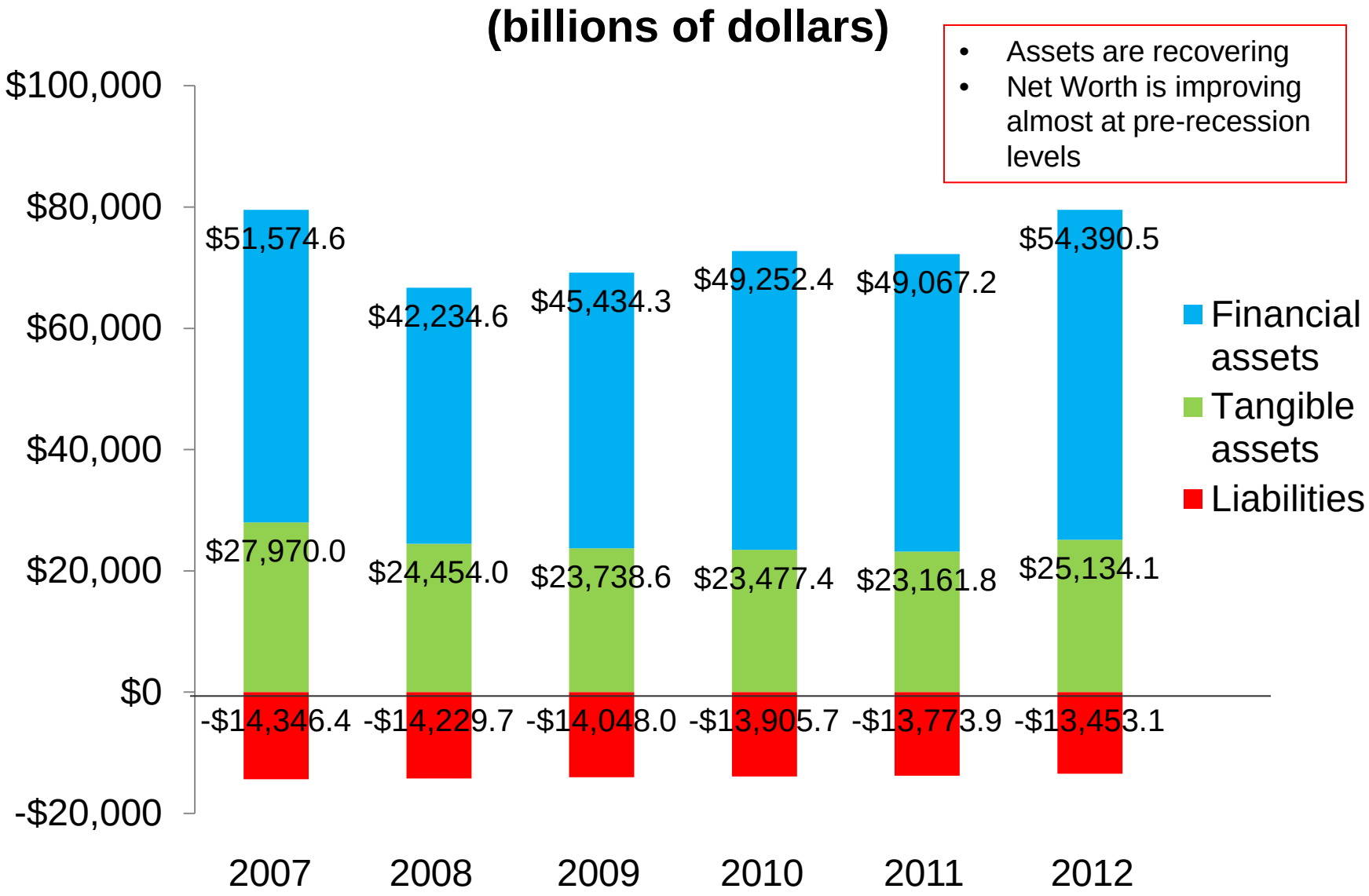
Evidence of Economic Recovery

- Dow is up about 130% over its Spring 2009 low, and now exceeds the previous Fall 2007 high
- Other leading indicators are generally positive
  - Conference Board's Index of leading indicators has risen fairly consistently since March 2009
- Retail sales of new passenger cars and trucks continue to increase year-over-year, but remain about 15% lower than the previously typical annual level (15.2 versus 17.5 million units): Federal Reserve
- Actual sales of recreation vehicles in 2012 were about 73% of those in 2006 (285.9 versus 390.5 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

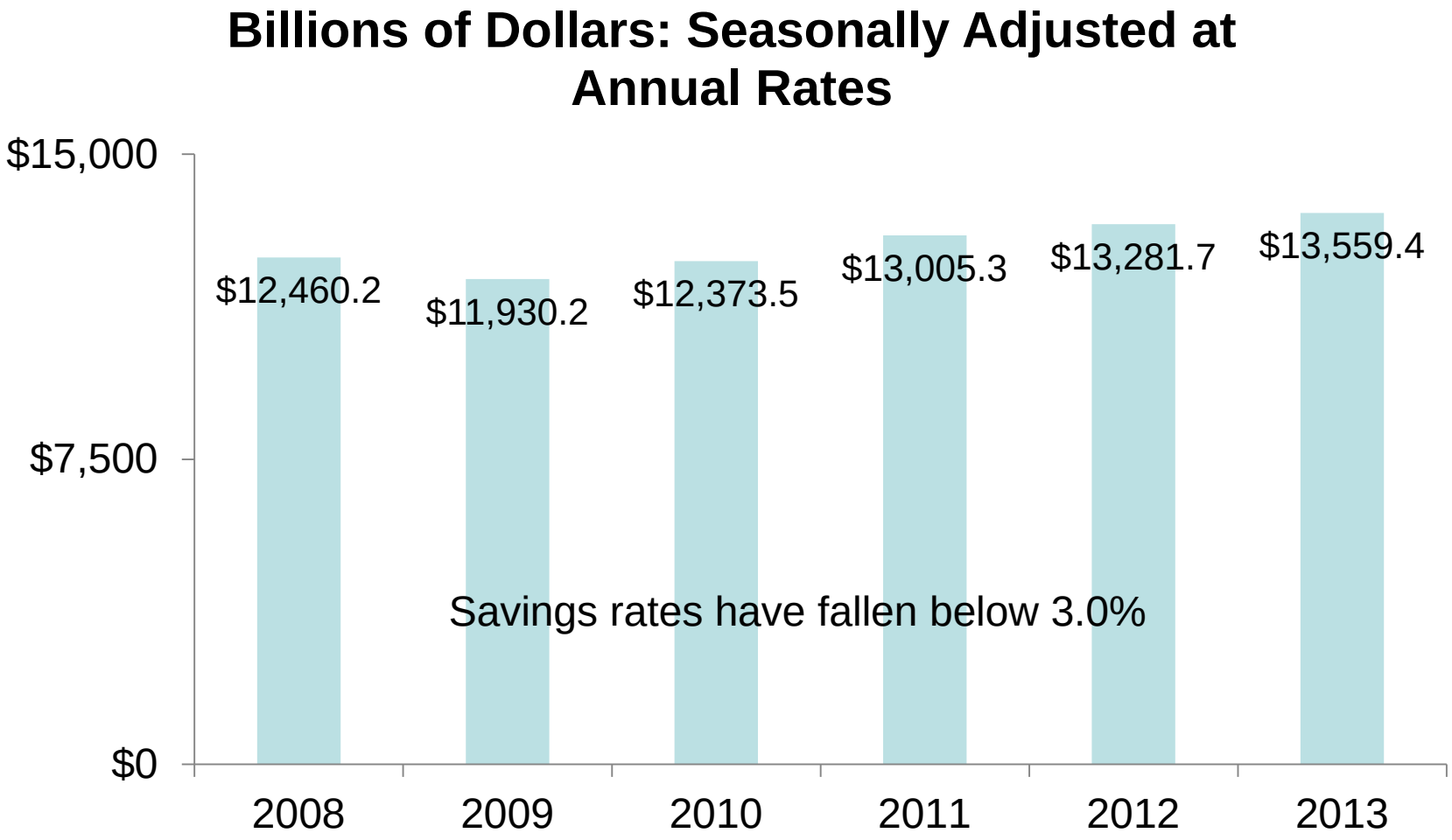
Balance Sheet of U.S. Households



- Assets are recovering
- Net Worth is improving almost at pre-recession levels

Source: Board of Governors, Federal Reserve System Flow of Funds Accounts, March 3, 2013

Personal Income of U.S. Households



Source: Bureau of Economic Analysis, April 26, 2013

Why households might begin to lead recovery

- Higher savings rates are falling (6.5% in 2012 to 2.7% now)
- Negative wealth effects are abating (particularly in real estate)
- Still cautious; tougher credit conditions
- Slow growth in personal income (2%-3% range)
- Potential continued relief
  - Stock market roars back
  - Housing prices rebound quickly
  - Growth in exports markets (But where?)
  - Continued low interest rates
  - Continued growth in employment

Is there a "New Normal"

- **Cause**
  - De-globalization
  - Wealth destruction (moderating)
  - De-leveraging pressures (public sector)
  - Increased government regulation
- **Effects**
  - Slower global economic growth
  - Higher savings rates (moderating)
  - Lower consumer spending (moderating)
  - Constraints on financial intermediation

Is the Recovery Self-Sustaining

- **Expansionary Fiscal Policy**
  - Deficit Spending
  - At 7% of GDP still at historical highs
- **Expansionary Monetary Policy**
  - Qualitative Easing
  - Monetary Base $800B in 2008 to $3T now and growing quickly!
- **Brakes on Expansionary Policies**
  - Austerity at the Public Sector Budget Constraint
  - Money Printing and Inflation

What's Happening at McCombs?

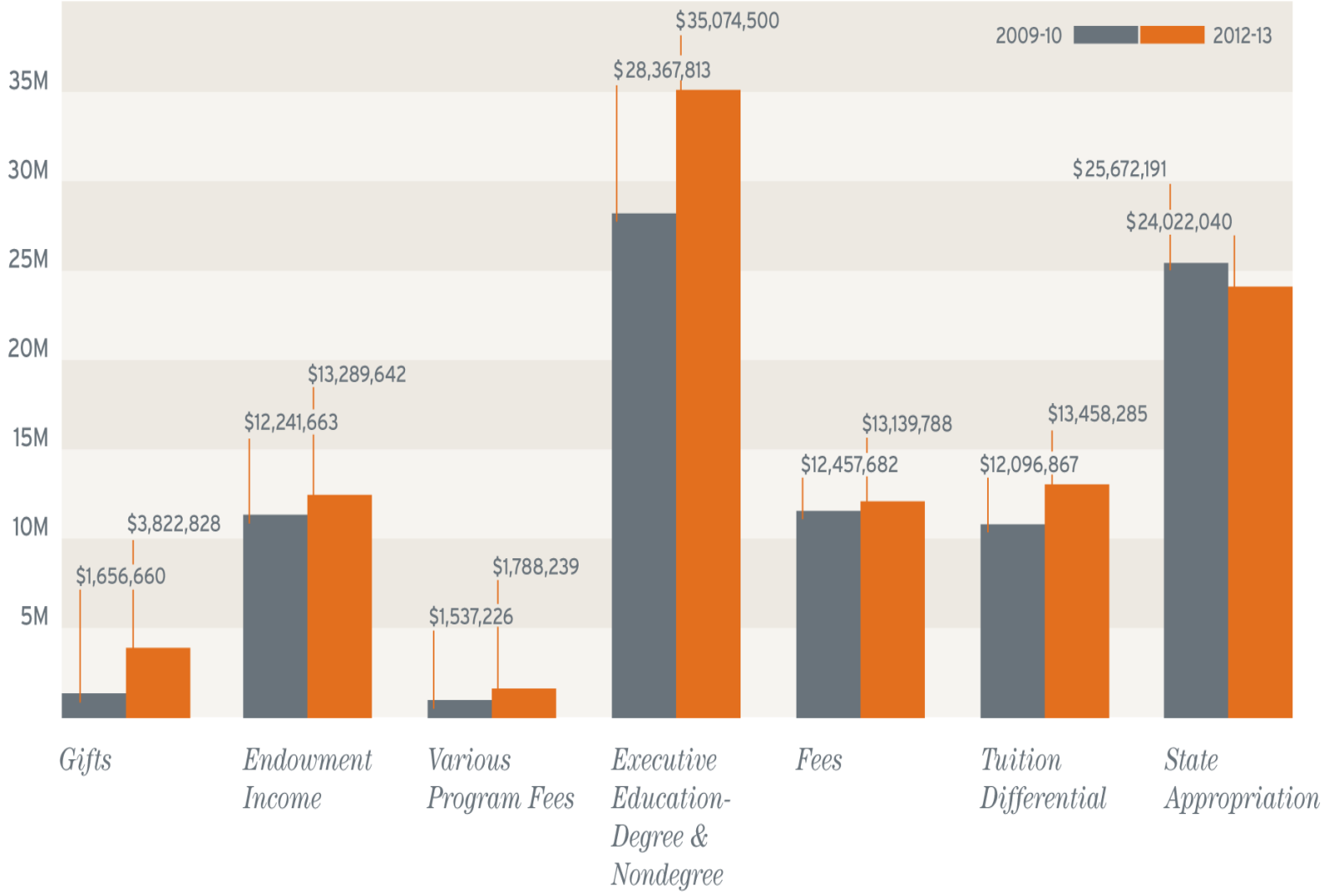
- **Texas Venture Labs**
  - Rob Warren, Director of Venture Lab Investment Competition
- **Campaign for Texas**
  - McCombs raised almost $157 million in donations, more than $36 million this year
- **Undergraduate Real Estate Certificate Program**
  - Raised all of the $4.0 million needed
- **Undergraduate Energy Management Certificate Program**
  - Raised slightly less than $1.0 million of $4.0 million needed
- **University of Texas Energy Poll**
  - Release of third poll results in April

What's Happening at McCombs?

- **McCombs Masters Degrees**
  - Masters of Finance, first class graduates in May
  - Masters of Business Analytics – Fall 2013
- **Health Care Initiative – why it's important**
  - Innovation in Health Care Delivery Systems: Focus on Social Issues
    - Fourth annual symposium held April 11-12, 2013
- **Scholarship Initiative**
  - Raised $31.6 million to date
    - 40 Acre (full-ride) Scholarship – 34
    - McCombs Presidential Scholarships – 21
    - McCombs Dean's Scholarships – 23

UT McCombs Front

BREAKDOWN OF REVENUE SOURCES



UT McCombs Front

- **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
- **Rowling Hall**
  - $155M ≈ 500,00 sq.ft. facility
  - Location: Northeast corner of MLK and Guadalupe
  - Purpose: Graduate and Executive Development Education

Upcoming Webinars

- **May**
  - May 23 – DISC – The Universal Language – A Career Webinar with David Blocker, MBA ’07
- **June**
  - June 11 – Big Data and Data Analytics – A Knowledge To Go Webinar with Mike Hasler, Program Director MS Business Analytics
  - June 20 – How to Build Wealth via Franchising – A Career Webinar with Stephen Maeker, BBA ’90 and MBA ’96

Please Give Back to McCombs!

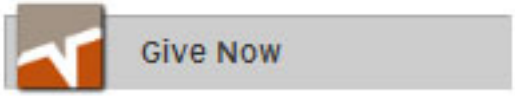
This webinar has been brought to you by the McCombs MBA & BBA Alumni Advisory Boards, coordinated by alumni for the benefit of the Alumni Network.

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.mccombs.utexas.edu/alumni



Suggested fund: *MBA or BBA Alumni Excellence Funds*

Please use response code *KTG*

Online survey link: https://mccombs.qualtrics.com/SE/?SID=SV_8J5vTHjW4hI0rBj

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