An Economic Outlook and School Update

by Dean Tom Gilligan
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 Akhter
    - 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

Change from Preceding Period; Seasonally Adjusted at Annual Rates

Percent Growth

Source: Bureau of Economic Analysis, April 26, 2013
Mean Forecasted Real GDP Growth

Forecasters turned out to be too optimistic in 2011-2012

Forecasters are adjusting their growth numbers down

Source: Federal Reserve Bank of Philadelphia
Unemployment Rate: Civilian Workforce

<table>
<thead>
<tr>
<th>Year</th>
<th>Adults</th>
<th>Adult Men</th>
<th>Teens</th>
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<tbody>
<tr>
<td>April 2010</td>
<td>9.2%</td>
<td>10.2%</td>
<td></td>
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<tr>
<td>April 2011</td>
<td>8.4%</td>
<td>8.8%</td>
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<tr>
<td>April 2012</td>
<td>7.5%</td>
<td>7.7%</td>
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<tr>
<td>April 2013</td>
<td>6.9%</td>
<td>7.1%</td>
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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)

Historical Perspective

Percent Job Losses in Post WWII Recessions

- 1948
- 1953
- 1957
- 1960
- 1969
- 1974
- 1980
- 1981
- 1990
- 2001
- 2007

Percent Job Losses Relative to Peak Employment Month

Number of Months After Peak Employment

Current Employment Recession

Dotted Line ex-Census Hiring

http://www.calculatedriskblog.com/
# Actual and Forecasted Inflation

## Headline CPI Inflation

<table>
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<tr>
<th>Year</th>
<th>Actual</th>
<th>Forecasted</th>
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<tbody>
<tr>
<td>2006</td>
<td>3.24%</td>
<td>2.85%</td>
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<tr>
<td>2007</td>
<td>2.85%</td>
<td>3.20%</td>
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<tr>
<td>2008</td>
<td>3.85%</td>
<td>1.60%</td>
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<tr>
<td>2009</td>
<td>-0.34%</td>
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<tr>
<td>2010</td>
<td>3.20%</td>
<td>2.10%</td>
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<tr>
<td>2011</td>
<td>2.10%</td>
<td>2.10%</td>
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<tr>
<td>2012</td>
<td>2.00%</td>
<td>2.00%</td>
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<tr>
<td>2013</td>
<td>2.20%</td>
<td>2.00%</td>
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<tr>
<td>2014</td>
<td>2.30%</td>
<td>2.20%</td>
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50 yr average = 4.1%

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

(billions of dollars)

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

Billions of Dollars: Seasonally Adjusted at Annual Rates

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
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
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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_8J5vTHjW4hl0rBj

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