

McCombs Knowledge To Go



May 11, 2010

School Update and Economic Outlook



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 Alumni Advisory Board
 - Committee Chair: Jeff Bock, MBA '03
 - Committee Members: Blake Sellers; Beau Ross; Bob Feiner; Sean McDonald; Connie Casson
 - Faculty Liaison: Jim Nolen
 - Presenters
 - Jim Nolen, Sandy Leeds, and John Doggett

Knowledge To Go Webinar

■ Participation

- Open to all McCombs alumni and students
- Average 150 attendees per session, increasing each month
- Average 230 views per archived 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
 - Real estate
 - Energy

Outline for today

- **What professional economic forecasters are telling us and why?**
 - Modest recovery
 - Very slow employment growth
 - Fading risks of further contraction
- **What's happening at McCombs?**
- **McCombs Strategic Initiatives**
 - Energy Management and Innovation
 - Business, Government and Society
 - Venture Management and Innovation
 - Scholarship Endowments

My Qualifications

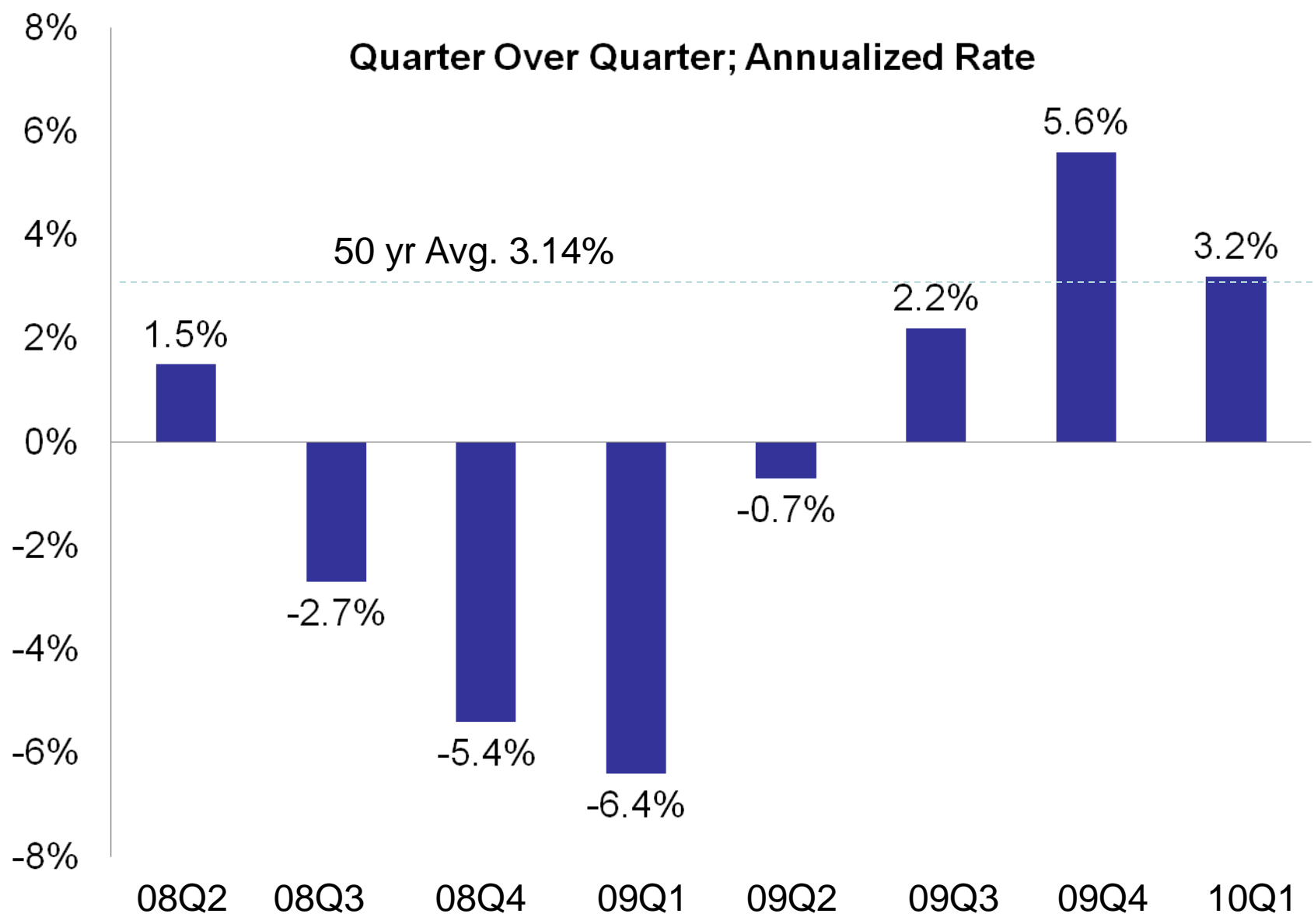
- **Micro-economist**
 - Wrong about specific things
- **Macro-economist**
 - Wrong in general



Economic Forecasts

- **Research Department, Federal Reserve Bank of Philadelphia**
 - “Survey of Professional Forecasters”
 - First quarter (Feb. 12, 2010)
 - 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

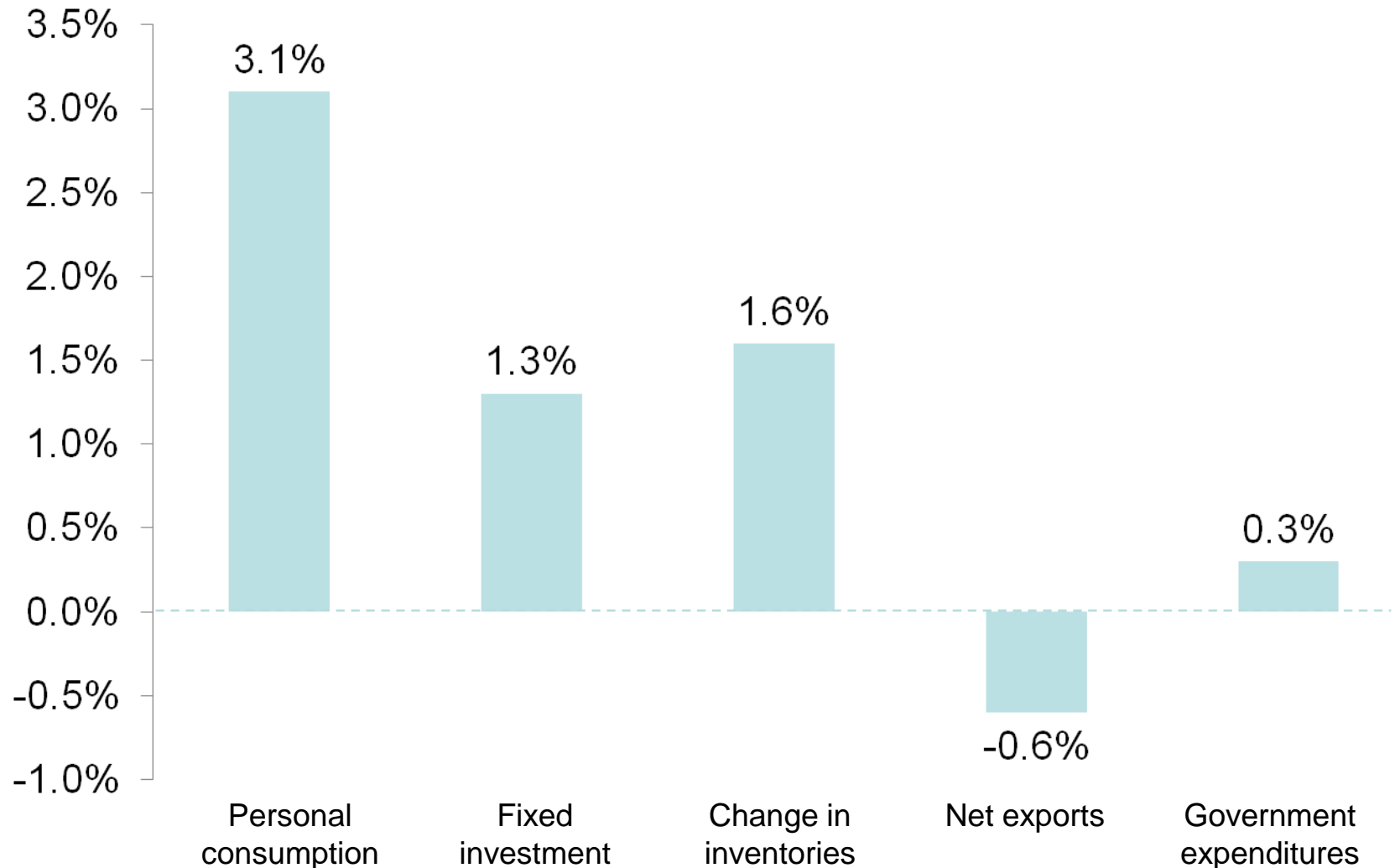
Real GDP Growth Last Eight Quarters



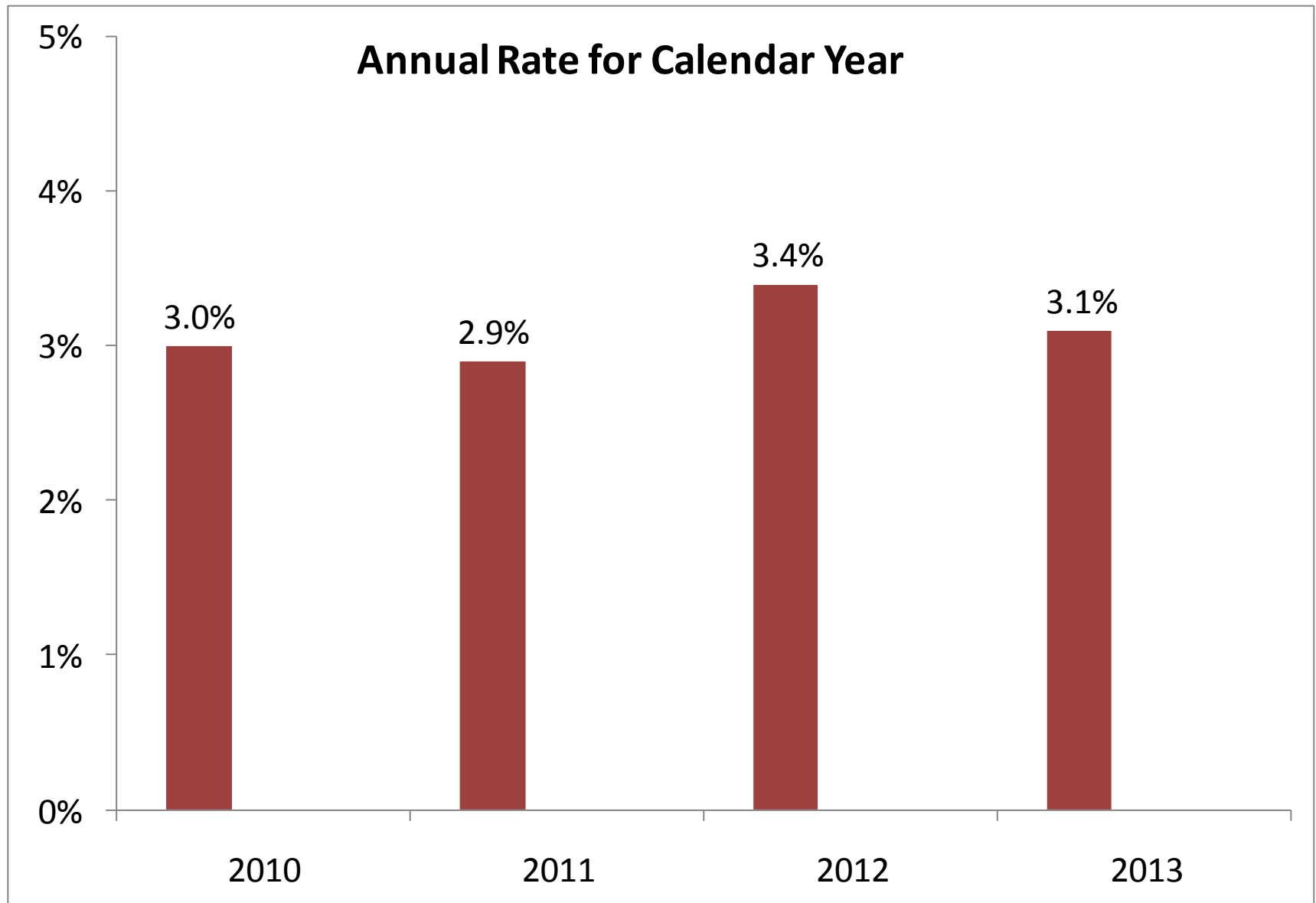
Source: Bureau of Economic Analysis

Actual Component Contributions

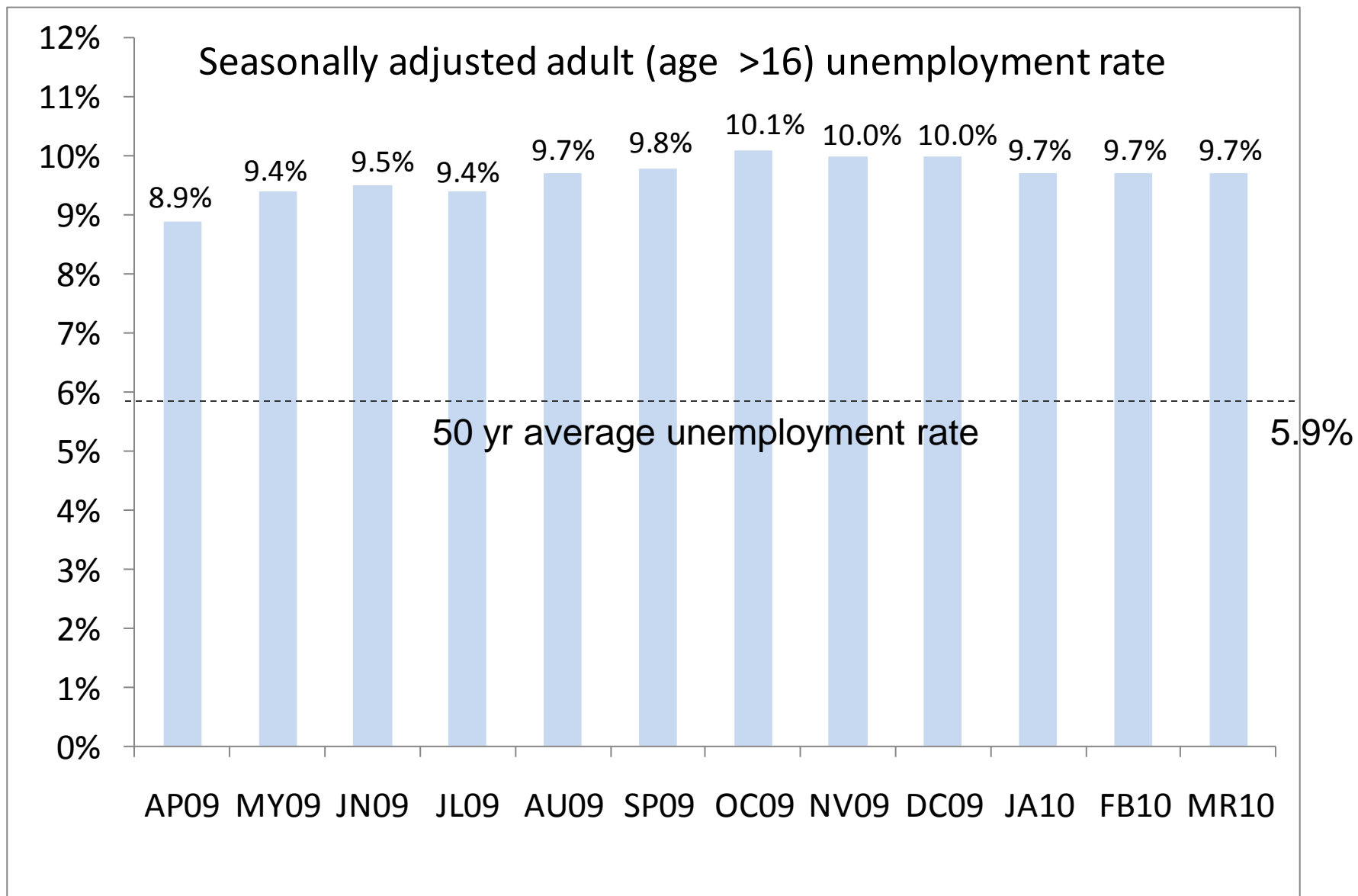
Percent contribution to total Real GDP growth



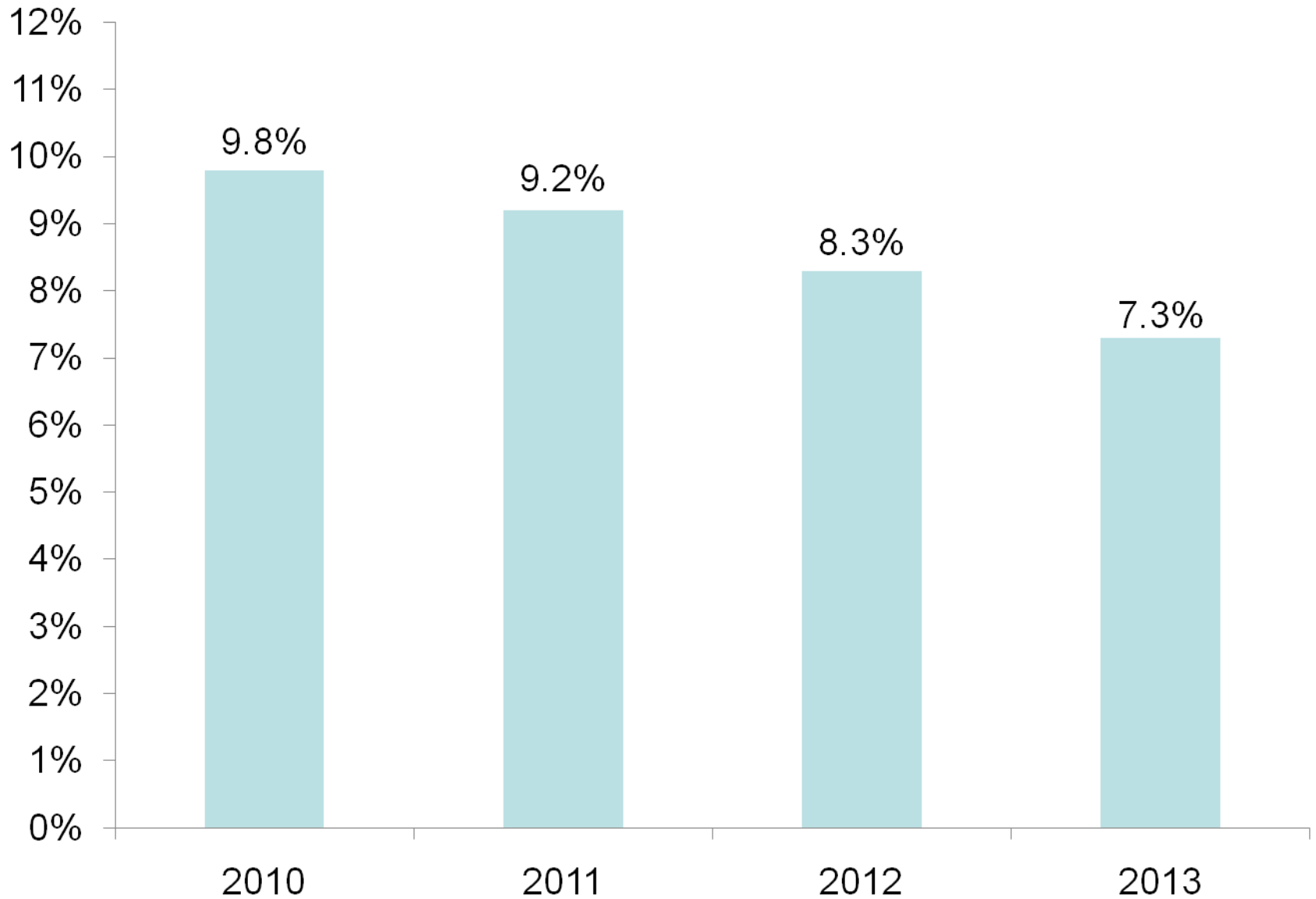
Mean Forecasted Real GDP Growth



Unemployment Rate: Civilian Workforce



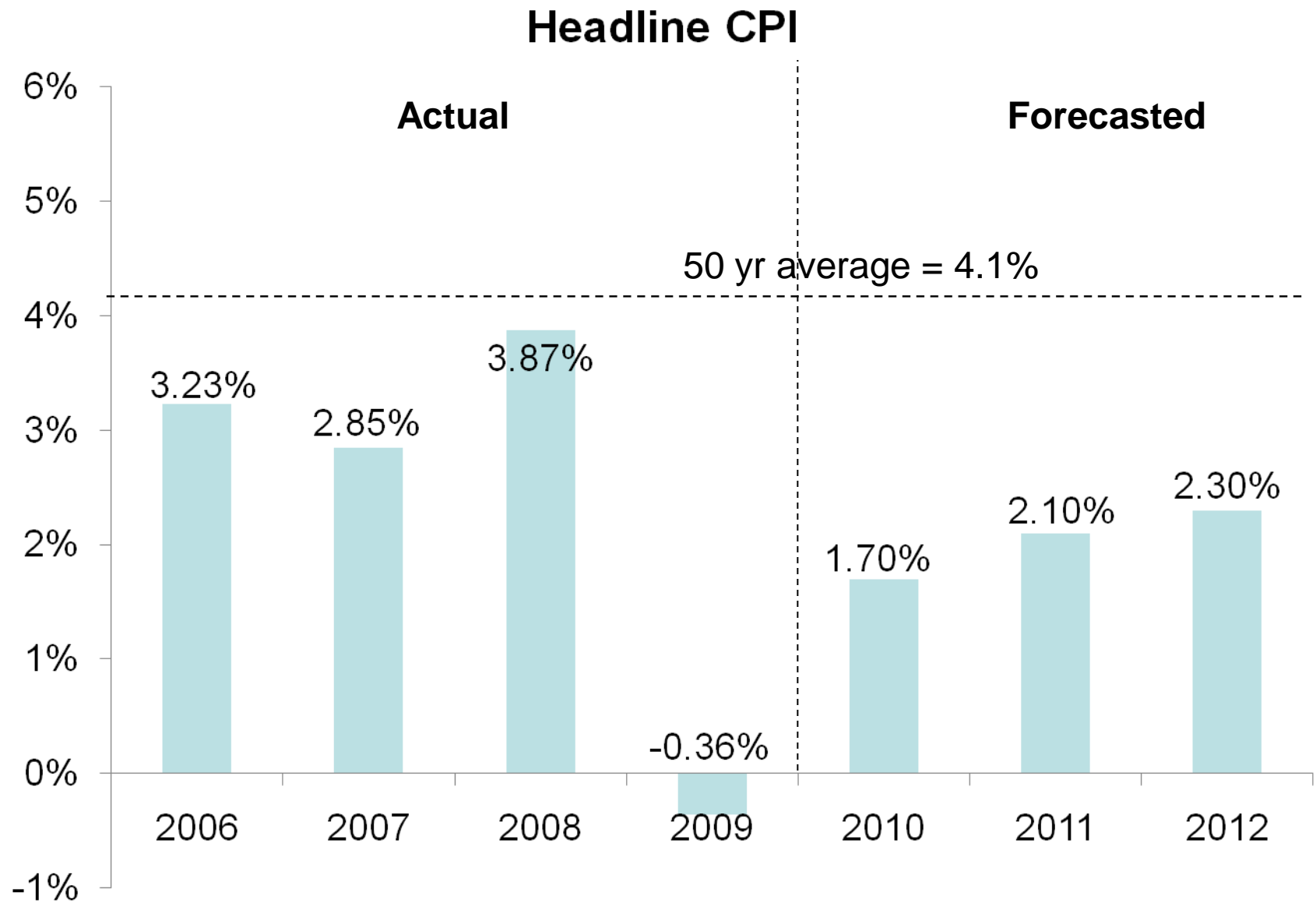
Mean Forecasted Unemployment Rate



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%**

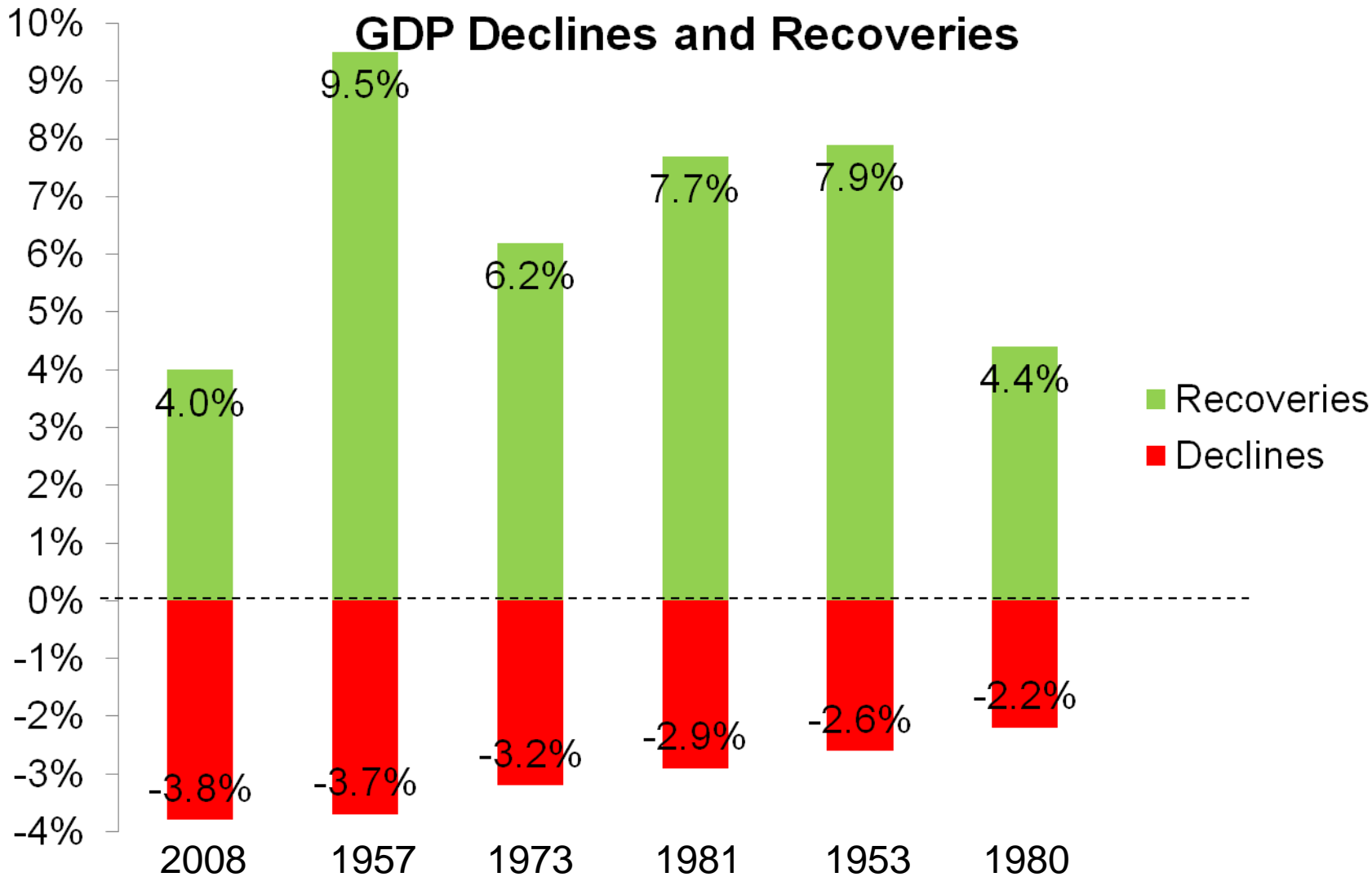
Actual and Forecasted Inflation



Summary of Economic Forecasts

- **Economic recovery began last fall**
- **Recovery is forecasted to be mild; in the range of 3.0%-3.5% real GDP growth**
- **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**

Economic Recoveries in Perspective



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

Evidence of Economic Recovery

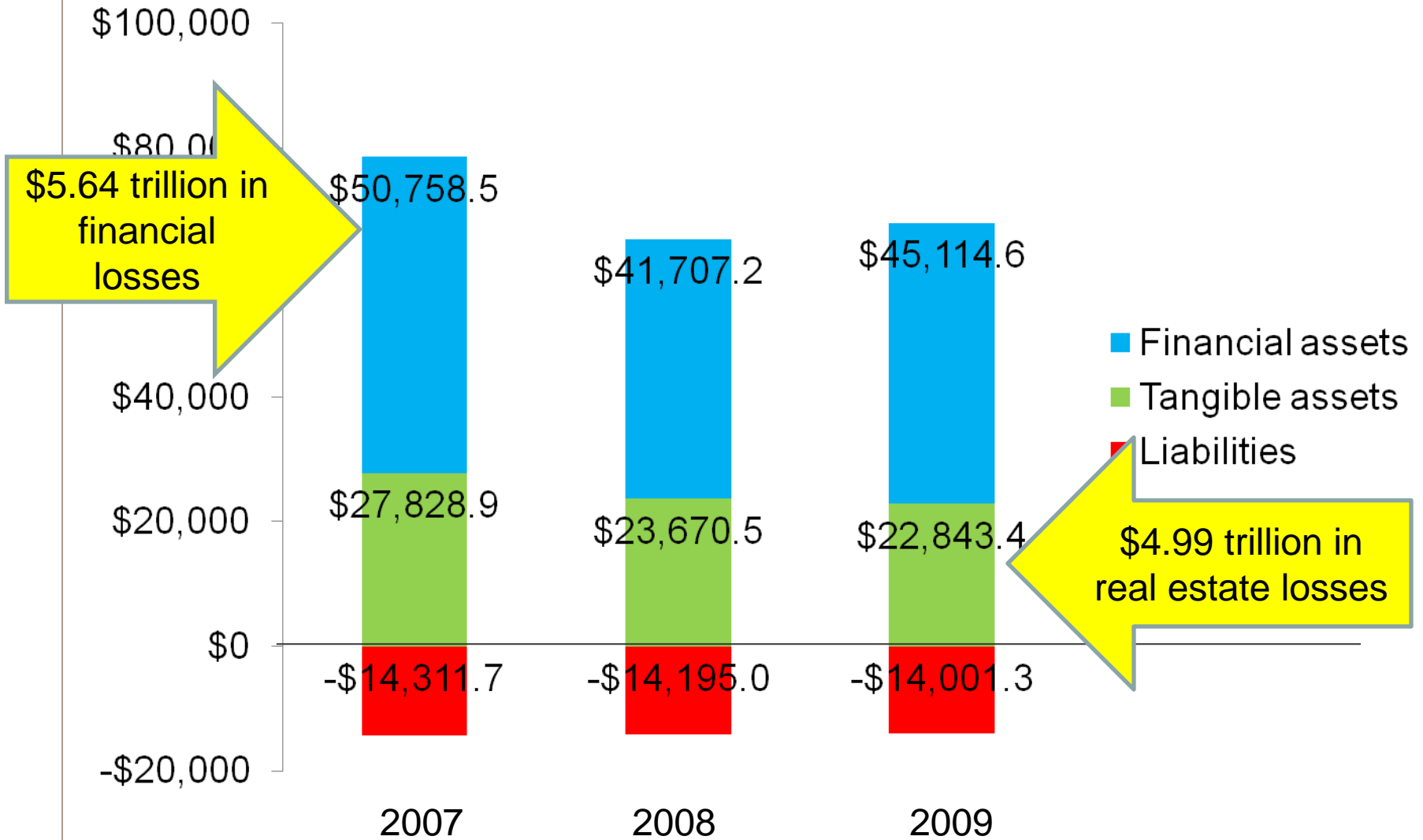
- Dow is up about 66% over its low, but still remains below 80% of the Fall 2007 high
- Other leading indicators are generally positive
 - Conference Board's Index of leading indicators has increased every month since March 2009
- Retail sales of new passenger cars and trucks is up slightly, but remain about 1/3 lower than previously typical annual level (11 versus 16 million units)
- Sales of recreation vehicles in 2010 are projected to be about half those in 2007 (185 versus 385 thousand units)

Why the predicted slow growth

- **Household wealth, income, and personal consumption expenditures**
 - Consumers are wrecked
 - 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

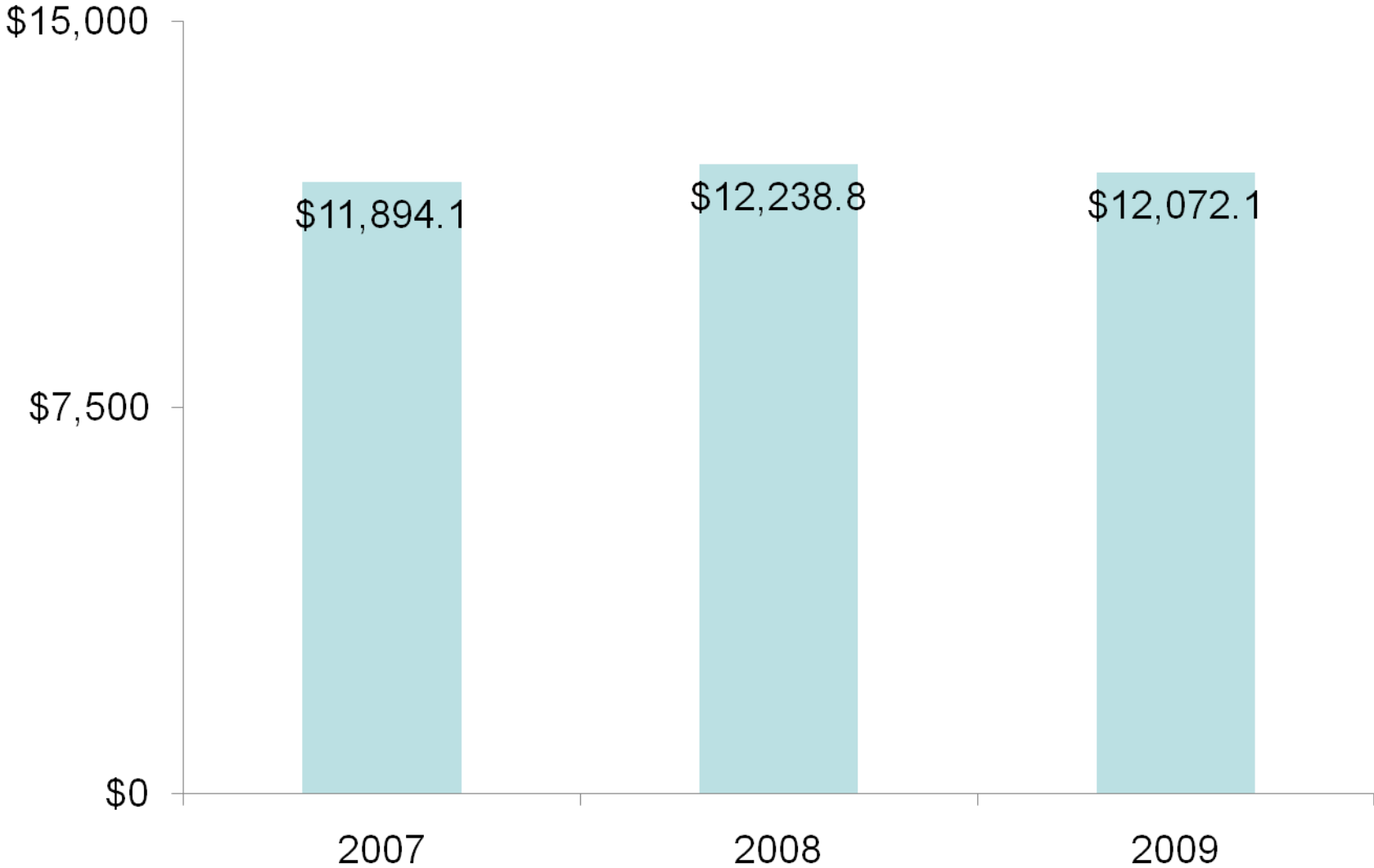
Balance Sheet of U.S. Households

(billions of dollars)



Income of U.S. Households

(billions of dollars)



Why households won't lead robust recovery

- **15% reduction in net worth**
 - Higher savings rates reduced spending
 - Negative wealth effects
 - Extreme caution
- **No growth in personal income**
 - Retards spending further
- **Potential relief**
 - Stock market roars back
 - Housing prices rebound quickly
 - Forecast is for relatively stable home prices

Recovery from Recession Induced by Financial Crisis

- Evidence is that it takes longer (e.g., Sweden 1991-97, Japan)
- **Monetary policy is less effective**
 - Credit standards tighten
 - Households/corporations trying to fix their balance sheets
- **Fiscal policy becomes constrained**
 - Government balance sheets become extended
 - High debt/GDP ratios retard growth (Reinhart & Rogoff)

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

Energy Management and Innovation

- **Energy Symposium hosted by McCombs Energy Management and Innovation Center**
- **CleanTech concentration at MBA level**
- **Energy Management focus at undergraduate level**
- **Executive development and MBA Working Professionals Program in Houston**

New Department at McCombs

- Business, Government & Society
- Goal: to use multidisciplinary social science approaches to produce useful research at the intersection of government regulation and business activity
- Core disciplines: applied economics, business law, business ethics & political science
- Initial hiring priorities: applied economics and business ethics

Venture Management and Innovation

- Venture Labs
 - An interdisciplinary education and research initiative to support entrepreneurship, innovation and company formation while providing a unique and directly applicable educational experience for participating students and a research environment for faculty
 - Promotes new venture creation at UT Austin through education and mentoring; market and business plan validation; team-building and networking; and providing direct links to resources and funding

Scholarships

- **42 scholarships and endowed presidential scholarships raised since 2006**
- **Value before matching funds is \$3,834,785**
- **With McCombs Matching the value of the scholarships raises to \$6,902,520**
- **This also includes 40 Acres Scholarships**

Upcoming Webinars

- **June 8: "8 Keys to Building Lasting Enterprises"**
 - Gary Hoover, McCombs Entrepreneur in Residence
- **July 13: "Building Your Company Culture"**
 - Marcie Zlotnik, Chairman and COO, StarTex Power and BBA Alumna

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Talent: Mentor another alumni or speak at a future webinar

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