

The Great Recession is Over: What's Next, and What Does It Mean for Learning?

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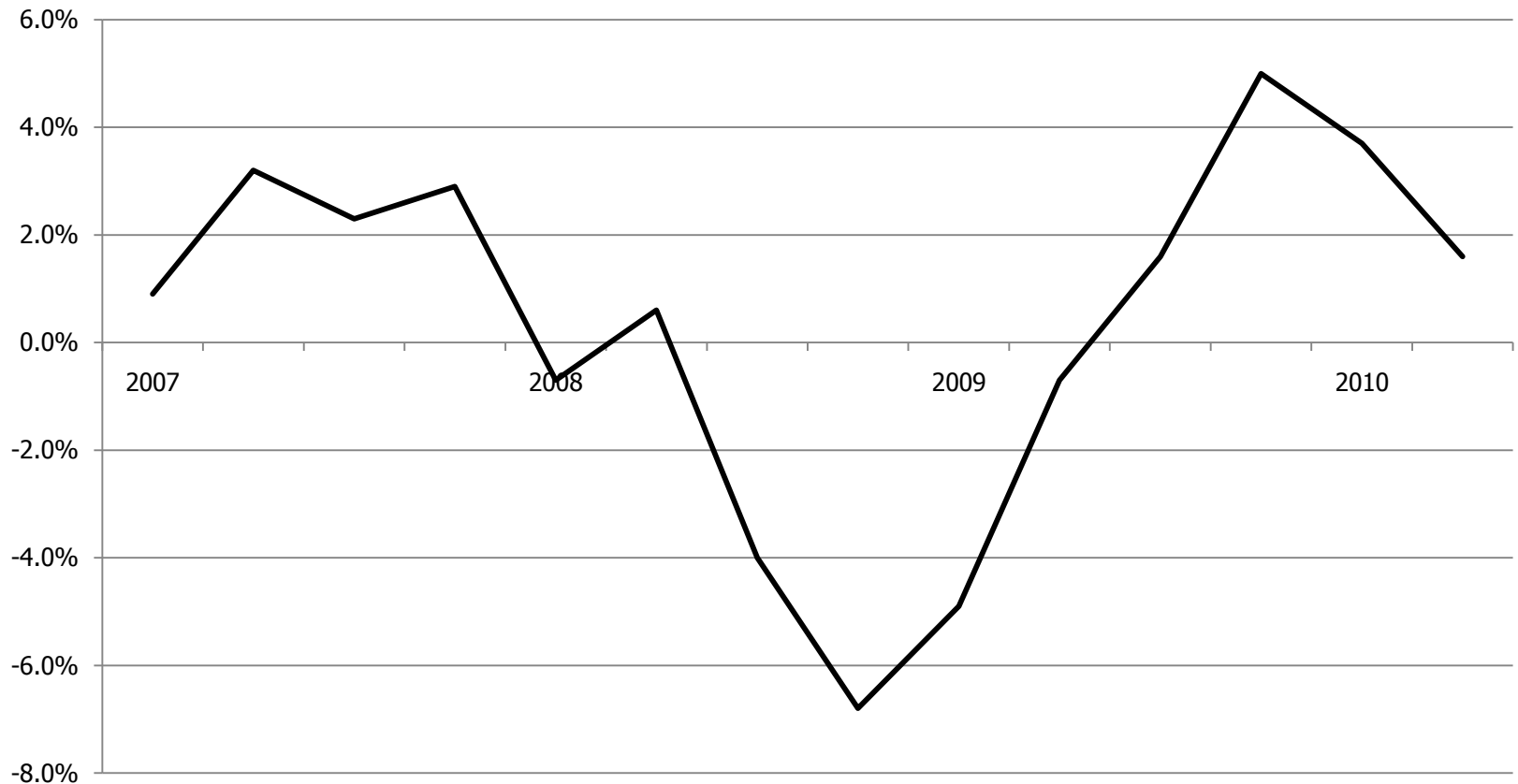


Great Recession of 2008-2009

- Duration: Dec 07 – Jun 09
 - 18 months
- Severity
 - GDP declined 4.1% (Gross Domestic Product)
 - 8.4 million jobs lost
 - Unemployment rate rose from 4.4% to 10.1%
- Triggered by decline in housing
 - Made worse by financial panic of late '08

Great Recession of 2008-2009

Quarterly Change in GDP (at annualized rates)





The Weak Recovery

Real GDP Growth

- This recovery
 - 2009:3 1.6%
 - 2009:4 5.0%
 - 2010:1 3.7%
 - 2010:2 1.6%
 - **Ave 3.0%**
- Severe recessions (first four quarters)
 - 73-75 6.2% 81-82 7.8%
- Mild recessions (first four quarters)
 - 90-91 2.6% 00-01 1.9%



The Weak Recovery

Average Monthly Job Growth

- This recovery
 - 2009:3 -261,000
 - 2009:4 -90,000
 - 2010:1 87,000
 - 2010:2 190,000
 - 2010:3 -54,000
 - **Ave** **-26,000**

- Severe recessions (first five quarters)
 - 81-82 310,000

- Mild recessions (first five quarters)
 - 90-91 40,000 00-01 -55,000



What Is Different About This Recession ?

- First recession caused or accompanied by a financial panic since 1929
 - Financial crises tend to produce more severe recessions and have slower recoveries
 - First time home prices have declined nationally since the 30s
- Last two recessions were very mild
 - Housing, car sales did not decline in 00-01
 - No inoculation against excessive behavior
 - 30 years since a serious recession



What Is Different About This Recovery?

- First recovery requiring massive deleveraging since the 30s
 - Consumer debt
 - Government debt
 - Bad bank loans
- First recovery where housing prices have been down (about 20% nationally)
- First time we have run out of ammunition
 - Taxes at a 60 year low
 - Spending at a 63 year high



Causes of Recessions

- Misjudgment
 - Over building
 - Over consuming
 - Over borrowing
 - Schemes to get rich
- Monetary policy
- Fiscal policy
- Transitions to peace time



A History of Recessions

- 12 since 1945
 - Previous worst was 1981-1982
- 6 from 1918–1944
 - Great Depression 1929-1933
 - Recession of 1937-1938
- 15 from 1857-1928
 - Panic of 1873 known as The Long Depression
 - Panic of 1893
 - Bankers Panic of 1907



The Great Recession

- Worst by all measures since the 30s
- First to involve a panic since 1929
- Time required for
 - Home prices to adjust
 - Consumers to pay down debt
 - Personal savings rate to rise
 - Banks to rebuild balance sheets



The Economic Outlook

- Weak to average growth into 2011
 - Not the strong growth after 1982
- Key is consumer spending
 - Business spending has been strong
 - Hiring will pick up when demand increases
 - Already is in manufacturing for export and to rebuild inventories
- Consumer and business confidence needs to return



What Has Been the Policy Response?

- Financial panic contained
- Monetary Policy
 - Short-term interest rates to near 0%
 - Long-term rates to 40-50 year lows
- Fiscal Policy
 - \$800B stimulus
 - Tax cuts
 - Aid to states to prevent layoffs, unemployment aid
 - Infrastructure, project spending
 - Further extension of unemployment benefits



Policy Prospects and Implications for 2011

- Monetary policy
 - Little room for further reductions
 - But low rates will eventually stimulate borrowing
- Fiscal policy
 - Impact of stimulus spending is waning
 - And large deficit limits ability to provide further stimulus



Closer Look at Fiscal Policy

Does stimulus work?

- Did the \$800B keep unemployment from rising above 8.5%?
 - No. But does that mean it had no impact or made things worse?
 - No way to prove impact but consider
 - GDP growth
 - Jobs



GDP Growth

2008:1 **-.7%**

2 **.6%**

3 **-4.0%**

4 **-6.8%**

2009:1 **-4.9%**

2 **-.7%**

3 **1.6%**

4 **5.0%**

stimulus passed Feb 17



Average Monthly Job Growth

| | |
|--------|----------|
| 2008:1 | -31,000 |
| 2 | -191,000 |
| 3 | -334,000 |
| 4 | -652,000 |

| | |
|---------|----------|
| 2009: 1 | -753,000 |
| 2 | -477,000 |
| 3 | -261,000 |
| 4 | -90,000 |

stimulus passed Feb 17

| | |
|---------|--------|
| 2010: 1 | 87,000 |
|---------|--------|

Conditions Where Stimulus Will Not Work



- Economy at full employment
- Taxpayers save their “portion” of the deficit + interest
 - Called rational expectations
 - All tax cuts (not offset by spending cuts) saved
 - Spending portion (not offset by tax increases) saved
- Deficits produce anxiety leading to loss of confidence



US Federal Budget Deficit

- 2009 Deficit = \$1.4 trillion
 - Largest \$ amount in US history
 - Largest in relation to size of economy since WWII
 - 2009: 9.9% of \$14.2 trillion GDP
 - 1943: 31% of \$199 billion GDP (peak % in WWII)
 - 1934: 5.9% (peak % in 30s)
- 2010 Deficit = \$1.3 trillion (projected)
 - 9.1% of \$14.7 trillion GDP
 - Federal debt held by public up from 40% (2008) to 69%
- CBO projects deficits through 2020 even with 2011 tax increase and no AMT relief



The Budget Deficit for 2010

- The Projections

| | | |
|------------|-------------------------|---------------------|
| ■ Receipts | \$2.143 trillion | 14.6% of GDP |
| ■ Outlays | <u>\$3.485 trillion</u> | <u>23.8% of GDP</u> |
| ■ Deficit | \$1.342 trillion | 9.1 % of GDP |

- Receipts are only 61% of outlays

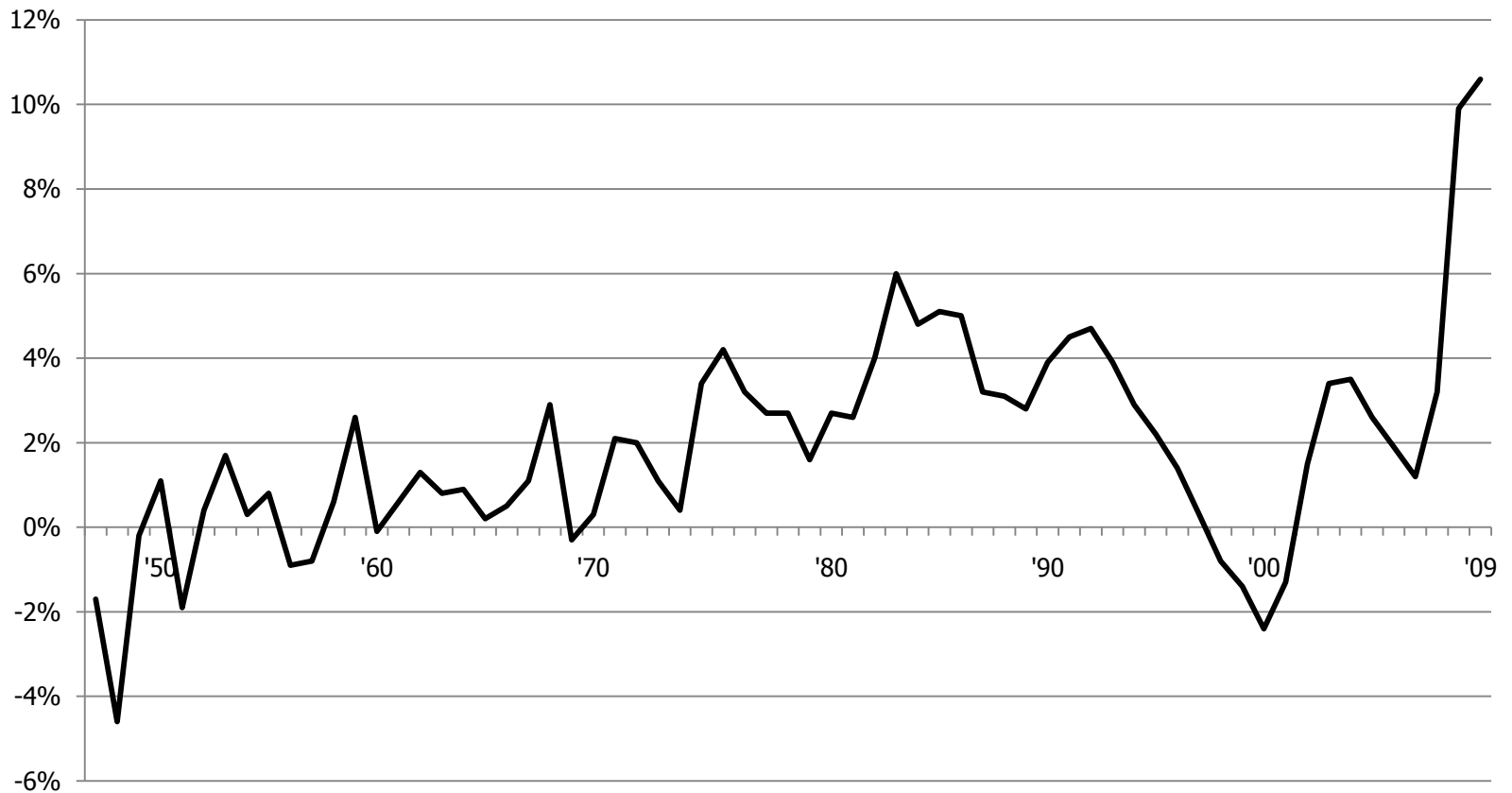
Budget Realities

(From 2010 Budget without tax increase)

| Federal Outlays for 2011 | | | | | |
|---------------------------------|--|--|--|----------------|------------------------|
| Billions of Dollars | | | | | |
| | | | | | % of Total |
| | | | | | <u>Receipts</u> |
| National Defense | | | | \$719 | 33% |
| Social Security | | | | 721 | 33% |
| Medicare | | | | 457 | 21% |
| Medicaid | | | | 248 | 11% |
| Interest | | | | 188 | 9% |
| Total | | | | \$2,333 | 108% |
| Total Receipts | | | | \$2,165 | |

US Federal Budget Deficit Percent of GDP

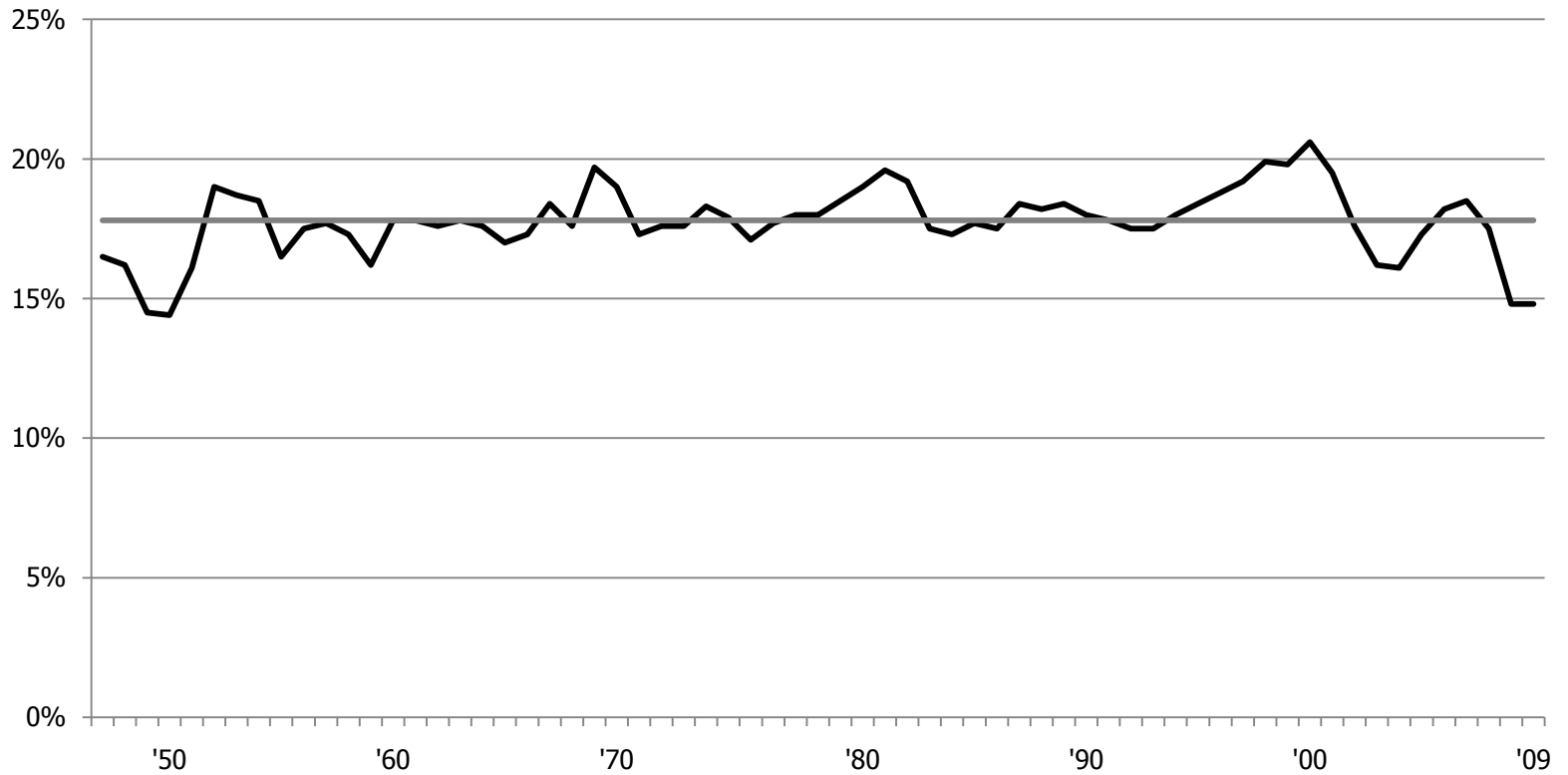
1947-2009



Receipts as a Percent of GDP

1947-2009

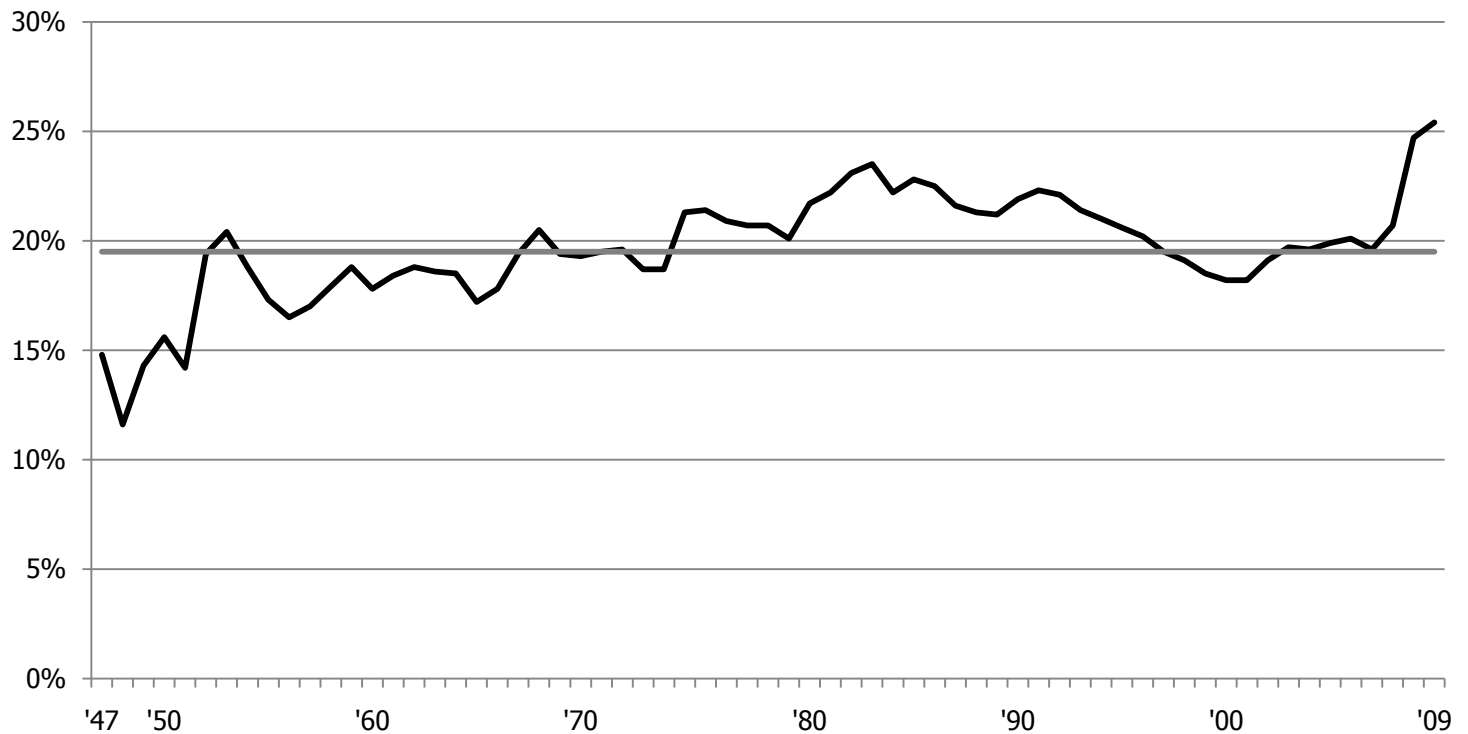
Ave '47-'07 = 17.8%



Outlays as a Percent of GDP

1947-2009

Ave '47-'07 = 19.5%





Implications of Persistent Budget Deficits

- Economy
 - Upward pressure on interest rates
 - People worry about future tax increases
 - Possible downgrade of US debt
 - Inflation if we print money
 - Loss of control to China, others



Implications of Persistent Budget Deficits

- Business

- Higher interest rates => lower profit
- Higher taxes => lower profit
- Both => cut costs

- Consumer

- Higher taxes=> lower spending
- Prospect of higher taxes=> higher saving, lower spending



Fiscal Policy in 2011

- So, don't expect any more large stimulus packages unless economy goes back into recession
- Do expect a plan to reduce budget deficits
 - Should reduce uncertainty and increase confidence
- Extension of 2003 tax cuts
 - One or two years
 - Should be for all



Fiscal Policy for 2011

- Greater clarity on health care policy
 - Reduce (?) uncertainty
- Energy policy (?)
 - Off the table with Republican gains
 - Would reduce uncertainty
- Divided government
 - Fewer major new initiatives
 - Potential to reduce deficits



Rest of World Outlook

- Europe
 - Good growth at 4%
 - Little chance of double dip
- China
 - Strong growth at 10%+
- BRICs

| | | | |
|----------|----|--------|-----|
| ■ Brazil | 8% | Russia | 5% |
| ■ India | 8% | China | 10% |
- Latin America
 - Good



Economic Outlook

- Weak growth into 2011
 - Double dip possible but unlikely without an unforeseen event
 - Look for GDP growth of 2%-3%
 - Little improvement in jobs or unemployment rate
 - Interest rates remain low
- Better growth in 2012
 - Most excesses worked off
 - Impact of low rates



What Could Go Wrong?

- Tax increases in 2011
- Deficit and debt anxiety
 - Lack of cohesive plan to reduce deficit
 - Danger of self-fulfilling prophecy
- Panic 2
- Mideast War, resurgence of terrorism



Impact on Learning

- 2011 Budgeting to occur in a weak and uncertain environment
 - Some businesses are fine and budgets will be good
 - Many others are still struggling
 - State and local governments are particularly bleak
- 2012 is first hope for a strong budget for many



Implications for Learning

- More important than ever to align learning to your organization's **highest priority goals**
 - Do this proactively and strategically
 - Capture in scorecard
 - Report progress monthly
 - Keep organization's goals and progress against goals visible



Implications for Learning

- More important than ever to align learning to your organization's **highest priority goals** (continued)
 - Don't spread yourself too thin
 - Better to ensure success for a few initiatives than risk failure on many
 - Governing board can help
 - Focus on unaligned, general learning if cuts are required



Implications for Learning

- More important than ever to build a business case for discretionary learning
 - Proactive. Completed in conjunction with strategic alignment and completed before the year begins
 - Bring costs and expected impact and/or benefits together
 - Jointly created with stakeholder



Implications for Learning

- Excellent opportunity to start, refine or expand certain programs
 - Business acumen
 - Leadership
 - Managing in uncertainty
- Use recession and its impact on business as case study
- Use leaders as teachers



Implications for Learning

- Create a more flexible cost structure
 - Use part-time employees, consultants, partners and vendors to increase your variable cost structure
 - If you have downsized, now is the perfect time to begin building a more flexible structure



Implications for Learning

- Once in a decade opportunity to create the learning function you want.
 - By building from a low base
 - Less painful than redeploying or firing staff
 - Especially when combined with a compelling business case



Conclusion

- Good news: Great Recession is over
- Bad news:
 - Recovery will be slow
 - Limited means to speed up recovery
 - Budget deficit will play a major role in policy for next 10-15 years (at least)
 - Interest rates going higher
 - Pressure on costs to remain
 - Plan for next recession in 2017-2019



Conclusion (continued)

- Manage the learning function appropriately for this environment
 - Align learning to highest priorities
 - Decrease unaligned learning. Focus
 - Create business case and plan
 - Increase variable cost structure
 - Increase business acumen of your staff
 - Create the structure that will allow you to succeed