Managing Effectively in Uncertain Times

Dr. Charlie Hall, Ellison Chair in International Floriculture
Texas A&M University
charliehall@tamu.edu

Extractive & Manufacturing
- MINING
- OIL WELLS
- FISHERIES
- FORESTRY

Production
- PAPER MILLS
- PRINTED MATERIALS (Catalogs, signs, packaging)
- PLASTICS MANUFACTURING
- PETROLEUM PRODUCTS
- FERTILIZER; PESTICIDES
- CHEMICAL PLANTS
- TOOLS & MACHINERY

Marketing
- TRADE PRESS & PUBLICATIONS
- END CONSUMER MARKETING
- BROKERS
- LATERAL MARKETING

Consumption
- GARDEN CENTERS
- GROCERS/STANDS
- SUPERMARKETS
- HOME IMPROVEMENT CENTERS
- FARM MARKETS
- MAIL ORDER & INTERNET SALES

End Consumer

Fragmented Bipolar Maturing Shakeout

Direct Marketing
- INSTITUTIONAL
  - School; Churches
  - Hotels; Resorts
  - Restaurants
  - Corporate landscapes
  - Public buildings
  - Community parks
  - Sports turf / golf courses

Indirect Marketing
- INSTALLATION
  - Landscape contractors
  - Lawn maintenance
- INSTALLATION
  - Retailers
- INSTALLATION
  - Wholesale
- INSTALLATION
  - Installers

Regulatory
- Trade Agreements
- Trade Barriers & Import Restrictions
- Patents, Royalties & Copyrights
- Environmental Protection
- Pesticide and other chemical regulations

TRADE AGREEMENTS
- Market Area to Market Area
- Other states
- Canada
- Europe

Imports
- Columbia, The Netherlands, Ecuador, Mexico, Canada,
- Guatemala, Australia, Israel, England, Costa Rica, Hawaii,
- Philippines, Japan, China, Africa
In sum, a wide gap exists between the future cost of the services that the public has become accustomed to receiving from the federal government and the tax revenues that the public has been sending to the government to pay for those services.
Government revenues versus expenditures, 1947-2012
$1 Trillion
(1,000,000,000,000)
(31,546 years)

We’re talking BIG numbers here!

Fiscal cliff offers

- Stimulus/tax extenders
- Discretionary cuts
- Social Security/Medicare/ Medicaid/matching cuts
- Tax increases
- Interest savings

* Note: Second Obama offer did not specify mandatory discretionary spending cut split.
What the deal did...

- Tax policy changes
- 2-month delay of sequester
- 1-year extension of Medicare “doc fix”
- 1-year extension of unemployment insurance provisions
- 1-year extension of 2008 Farm Bill provisions
- Canceled pay raises for Members of Congress

Tax provisions on the deal...

- Permanent extension of marginal rates ($400,000 singles; $450,000 married)
- Permanent extension of 15% capital gains and dividends rate; 20% rate above threshold
- Permanent extension of estate tax top rate of 40% (indexed $5 million exclusion for inflation)
- Permanent index of AMT for inflation
- Tax extenders package
- 1 year extension of 50% bonus depreciation
- 5 year extension of stimulus tax credits
What was not in the deal...

- Extension of the payroll tax cut
- Modification of the debt limit
- Major entitlement cuts
- Procedures on how to deal with tax reform and entitlement revisions in the 113th Congress

How will all this affect the deficit?
How will it affect the economy?

Where do we stand right now?

1. PCE
2. Gov spending
3. Business investment
4. Net exports
The Conference Board Leading Economic Index® (LEI) for the U.S. declined in November.

**Leading Economic Index (LEI) for the United States**

- **Index:**
  - **2004:** 100

- **Percent Change:**
  - **Revised:**
    - June 2009: 0.0
    - July 2009: 0.4

- **Diffusion:**
  - **2004:** 55.0

- **Recent Months:**
  - **November 2012:** 95.8

- **Summary Table of Composite Economic Indexes**

**U.S. Trade, Exports and Imports, Billions Dollars per Month (SA)**

- **R**ecession
- **E**xports
- **I**mports

Latest LEI Through March 2009, Latest CEI Through June 2009

Shaded areas represent recessions as determined by the National Bureau of Economic Research.

Source: The Conference Board

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**Leading economic index**
Employment trends index

Unemployment insurance claims
Housing prices are improving

The 2013 home improvement market is forecast to grow by almost 5.0%.

Positive home improvement outlook
The new age of energy?

WTI crude = $105/barrel in 2013 = 6+ bbl/day

Oil & Gas Production

GDP for No. 10-15 World's Largest Economies, 2011

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<tr>
<th>Country</th>
<th>GDP Trillions of U.S. dollars</th>
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<tr>
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Source: N.B. Dept. of Mineral Resources
Regional differences in gas prices

$3.58/gal in Q4 2012

$3.44/gal in 2013

$4.05/gal for diesel in Q4

“100-year” natural gas?

• Storage inventory 13% higher this year.

• Natural gas generation will decline 10% in 2013

• Henry Hub spot price:
  2011 $4.00/MMBtu
  2012 $2.75/MMBtu
  2013 $3.74/MMBtu
Even the uncertainty of our economic climate does not diminish the opportunity ahead of us.
Demographic effects on housing

• Four major demographic cohorts will set the housing market in the decades ahead:
  • The Older Baby Boomers
  • The Younger Baby Boomers
  • Generation Y
  • Immigrants

• The Boomers and Gen Y are ½ of the U.S. population.

Older Boomers Redefine

• Ages 56 to 65 – First boomers became “seniors” this year - 26 million strong
• Children of the 60’s – have redefined every age they entered.
• When will they retire? For most part, not for years.
• Healthier and more energetic – 60 is the new 50.
Older boomers

• No longer moving TO the suburbs, but AWAY from them.
• RCLCO research shows retiring Boomers want urban amenities.
• Moving closer to jobs, kids, and GRANDKIDS!

Younger Boomers

• Ages 46 to 54 – 52 million of them
• Trapped in the suburbs
  – Homes are “underwater”
• Their buyers are Gen X
  – Smaller cohort with lower incomes
Gen Y

- Arguably, the brightest, most aspirational, best educated, and the greenest generation to date.
- 60% of Masters degrees awarded to women
- Exhibit “herding” behaviors

Gen Y

- Incomes down last decade
- Over 30% are unemployed
- Carrying large school debt
What will they do in the future?

- They will move into the housing market but what can they afford?
- Still aspire to homeownership but cautious because they witnessed housing bust.
- RCLCO: Want to live in urban area
- They will rent for years!

Immigrants

- 40 million strong – 13% of households
- Immigrants who arrive between now and 2050 will drive 82% of the population growth.
### Immigrants

- Larger families and multigenerational.
- Ready to move into large suburban homes.
- By 2050, Caucasian = 47% of population.

### Implications

- Housing formation has slowed.
- Homeownership rate = 62-64%.
- Expect 1-2% appreciation in real prices.
- Houses will be smaller and greener.
- Enter the age of the new urbanization.
The suburban century is over. Megaregions = the future.

Char-lanta – 22M
So-Cal – 21M
Tor-Mon-tawa – 22M
So-Flo – 15M
Dal-Austin – 10M
Hou-leans – 10M
Cascadia – 9M
Pho-Tus – 5M
Den-Bo – 4M

Enter walkable suburban town centers...
...and city centers.

What about green industry consumers?
Real personal consumption expenditures

Expenditures rise to meet income.
— (C. Northcote Parkinson)

People afford what they want.
— (Lowell Catlett)
People want things that enhance the quality of their lives.

Want some proof?

Value
Relevancy
Authenticity

U.S. Pet Expenditures (in Billions Dollars)

Source: APPAs 2011-2012 National Pet Owner Survey
The Century Oak Tree received the “Famous Tree of Texas” designation from the Texas Forest Service.
What are the implications for growers?

New key success factors!
- Better brand management
- More detailed SKU movement analysis
- Closer integration of genetic innovations & supply levels with consumer demand
- Assimilation of innovative marketing technologies
- Greater efficiency in distribution & logistics
- Alliances and contracting

What are the implications for service providers?

New key success factors!
- Activity-based cost accounting / overhead recovery
- Water resource management
- Greater efficiency in logistics
- Assimilation of innovative marketing technologies
- Selling on value
What are the implications for retailers?

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Ellison Chair in International Floriculture

Mission Statement

The mission of this Chair is to advance the health and vitality of the Floriculture industry.