
LEADING TRENDS

Macroeconomics, Structural Factors, and Strategy



Two economic trend lines are swiftly moving in opposite directions with intermediate-term implications for private educational organizations. On the one hand, consumers in the United States are on a months-long buying binge, especially when it comes to travel and retail purchases. Major credit card companies report transaction volumes that equal or surpass pre-pandemic levels, and airports have never been fuller, even if business travel

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lags. One airline CEO says he is "so optimistic about 2023" after a booming 2022.

One wonders whether such optimism is mere irrational exuberance when faced with mounting evidence of what seems to be a pell-mell hurdle toward a looming recession. A Bloomberg economic model forecasts a 100% chance of a recession within eight months; Goldman Sachs also predicts a recession without handicapping the odds; Jeff Bezos and Elon Musk each foresee rough economic weather in the months (and years, according to Musk) ahead. In short, we can say that macroeconomic factors are converging to create all the right conditions for a downturn of unknown severity and length.

Similarly, many schools are seeing an uptick in demand—often fueled by pandemic-era factors—despite structural elements such as declining local school-age demography and 40-year highs in inflation. After briefly thinking that the end was nigh in the first half of 2020, we see many school leaders going full speed ahead as if this fortunate surge will continue unabated.

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We think it is only a matter of time before macroeconomics collides with consumer confidence and structural factors collide with enrollment demand to put renewed stress on school budgets. To use a different metaphor, the stage is set and all that remains is for the actors to play their parts. Boards of trustees and school administrators at all but the most generously resourced schools should practice cautious prudence as they consider their strategic options.

One approach is to engage the board and administrative team in a round of scenario planning, described by BoardSource as, “a disciplined and iterative process of envisioning possible futures and examining what each might look like, so that you can make informed decisions and choose a course of action.” One scenario would

project sharply lower enrollment (say, down 15%), and would include a budget model yielding a modest surplus even at that level. There are other scenarios, of course, but the whole point is to begin exercising the “muscle” of planning for adverse circumstances. We hope you won’t need it but, as they say, hope is not a plan.

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