

Something to Think About



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COMMON CENTS

This morning, the Bureau of Labor Statistics (BLS) released its Employment Situation report for the month of May, 2016. It wasn't dreadful in absolute terms like those in 2008, 2009, or during the recession at the start of the century. However, I have poured through hundreds of these reports over my career, some more than others, and I can't remember another one as worthy of the fire-place as this one.

The headline numbers were: 1) the economy added 38K net, new jobs during the month, and; 2) the Unemployment Rate fell to 4.7%, the lowest rate since November 2007. Hmm. That doesn't sound too bad, does it? Sure, we should be adding more jobs, but, you know, a 4.7% Unemployment Rate? That is pretty good, right?

Well, it is and it isn't. Ideally, you would want to see the Unemployment Rate decline due to an increase in job creation. By and large, this has been the case over the last couple of years. Unfortunately, according to the Household Survey portion of the report, it seems 458K folks decided to leave the workforce for one reason or another. That is a lot of folks.

Couple this number with good, old-fashioned population growth (*civilian non-institutionalized over 16*), and the BLS estimates there are roughly 94.71 million working age Americans who are not participating in the labor force. Yes, that is an all-time high, and an increase of 605K since the start of the year. As a result, the Labor Force Participation rate fell in May back down to 62.6%. So, less than two-thirds of potential workforce is actually participating in it.

Hey, people retire, and we all know our population is aging. Folks decide to be stay at home parents, and that is completely their decision. Also, more folks are in school than at any point in our nation's history. Yes, all of that is true. However, unless you have a sweet severance package or a weird situation, if you aren't participating in the workforce, you probably aren't getting a paycheck. As you can imagine, in a consumer-driven economy, paychecks are very good things.

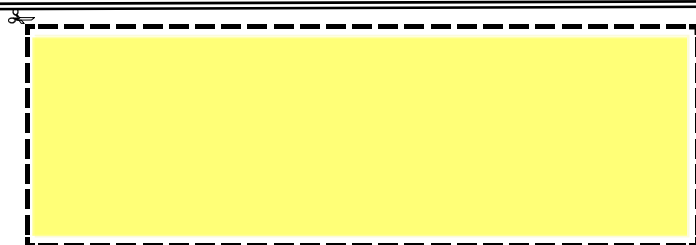
Some folks would be quick to point out the strike at Verizon probably shaved 35K or so off the number. That seems to be the case, as the telecommunications sector saw a decrease of 37.2K jobs last month. These folks will be back in the totals for June, so that is a good thing. But, even if you add 35K to the headline number, you only come up with 73K, which is a pretty weak number in an economy our size. It looks even worse when you consider the Postal Service added 9.7K jobs, and restaurants & bars added another 22.2K. Combined, that is about half the total.

Throw in another 10.3K from 'general merchandise' retail establishments and an additional 9.7K in 'social assistance,' and, well, I think you get the picture. Job growth was constrained to a fistful of sectors, mostly lower paying. As a result, 'average weekly earnings of production and non-supervisory employees on private nonfarm payrolls by industry sector, seasonally adjusted,' the so-called common man, rose a mere \$1/week last month.

Trust me, I tried to find a brightly shining, silver lining in this report, and I really couldn't find one. It wasn't necessarily depressing, as much as, well, bleah or meh. So much so, one of my first reactions after analyzing the report was: "is it any wonder Bernie Sanders has been gaining momentum recently?"

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After years of mediocre economic growth and low-end job growth, the idealistic carrots ‘The Bern’ puts in front of the public have to be overwhelming to a significant number of people. I mean, if I were 20-24, a lot of what he says would strike a real nerve, particularly if I had a pretty good idea what is coming down the pike: redundancy.

The average American worker probably doesn’t appreciate just how fungible, or even redundant, they actually are. There is a vast pool of labor in the global economy, much of it less expensive than in the US. Further, advancements in technology are making many rote or structured professions obsolete....as they always have.

As I have written here in the past, we had a typist at my first employer 25 years ago. Lynn was very capable, and could certainly type much faster than any of us. However, a simple memo would sometimes take the better part of a day, if not longer, to complete. First, you would have to handwrite the thing. Then you would give it to Lynn, and she would transcribe exactly what was on the page. Of course, you would have to correct the errors you should have caught before giving her your original message. Then, you had to give it back to her, and hope it was as you wanted when she gave it back. Obviously, your position on the org chart pretty much dictated when she got around to your letters. You can imagine just how long it took for me to get out a clean memo....sometimes more than a day.

After a few months of this, I came to a not so startling realization. I had a computer, which had a word processing program. We had a printer, and I could type at a decent rate. Oh, I wasn’t anywhere near as fast as Lynn, but I didn’t have to be. I just needed to cut the time necessary to get out a message from hours, or even days, to less than an hour, preferably minutes. And I did.

This slight shift in procedure actually took less of my time than the initial handwriting for Lynn, and my productivity appeared to soar. The other guys sitting on the bond desk took notice, and started typing out their stuff as well. No, we weren’t terribly efficient, but we were more efficient than we had been. Unfortunately for Lynn, the number of “red folders” in her inbox declined, as more and more people in the office began using the technology we had.

Within about 12 months of my starting at the trading desk, I think only 2 guys were still doing things the old way every time....George and Chuck. Suffice it to say, Lynn was now pretty much redundant, and we soon had zero typists left. Trust me, that was kind of a sad day in the office, because despite the decrease in the amount of work she had, she didn’t see it coming. I mean, she was absolutely gobsmacked. At least that is how I remember it.

With this story in mind, would it surprise you there are about 10K fewer people working at commercial banks in the US than there were 20 years ago? That there are only 4K more securities brokers than in June 1996? That the newspaper and magazine industries are half the size they were? That radio employment is down? That travel agencies employ 60% of the workers they did two decades ago? That direct mailing firms and photographic processors have shrunk considerably? My personal favorite? How about the US Postal Service employing 262K fewer folks now than they did in 1996?

Trust me, this isn’t anything that low cost Chinese or Mexican labor has done. This is all technology driven, and the majority of those job losses have happened really since 1999. What happened in 1999? That’s right, Y2K. What did everyone do leading up to Y2K? That’s right, they spent a lot of money on technology. What’s more, people became

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Something to Think About Cont.

very comfortable with something called the Internet. To that end, in 1997, only 18.0% of US households had access to the Internet, and less than 37% even had a computer. That is less than 20 years ago! In 2000, these numbers had ballooned to 41.5% and 51.0% respectively.

According to the US Census, in 2013, just 13 years later, 83.8% of US households had some form of computer, and 74.4% had some form of Internet connection. As you can imagine, those folks 65+ weigh down on the number. Now, according to Pew Research, 84.4% of American adults use the Internet in some form or fashion, with virtually everyone under 50 doing so (93%+).

While hindsight is 20/20, did anyone in 1996 really think the newspaper industry would completely fall apart in less than 2 decades, largely because of the Internet? Anyone besides Al Gore? That, first, digital cameras and then smart phones would essentially shut down the global photographic film and processing industry? Do my children even know what a dark room is? Then there is the Postal Service. Who would have thought, in all seriousness, in 1996, that emails, snapchats, online bill payments, texts, evites, and all of it would completely upend the USPS? Of course not. What in the world was a text? We never saw it coming.

Moving forward, computers and software are only going to get faster and smarter. Consider the following from an article on Bloomberg in 2014 which made liberal use of research from Oxford University in the UK (you can find plenty more articles on the subject on the Internet):

“These transitions have happened before,” said Carl Benedikt Frey, co-author of the study and a research fellow at the Oxford Martin Programme on the Impacts of Future Technology. “What’s different this time is that technological change is happening even faster, and it may affect a greater variety of jobs.”

It’s a transition on the heels of an information-technology revolution that’s already left a profound imprint on employment across the globe. For both physical and mental labor, computers and robots replaced tasks that could be specified in step-by-step instructions -- jobs that involved routine responsibilities that were fully understood.

That eliminated work for typists, travel agents and a whole array of middle-class earners over a single generation.

Yet even increasingly powerful computers faced a mammoth obstacle: they could execute only what they’re explicitly told. It was a nightmare for engineers trying to anticipate every command necessary to get software to operate vehicles or accurately recognize speech. That kept many jobs in the exclusive province of human labor -- until recently.

Oxford’s Frey is convinced of the broader reach of technology now because of advances in machine learning, a branch of artificial intelligence that has software “learn” how to make decisions by detecting patterns in those humans have made.

The approach has powered leapfrog improvements in making self-driving cars and voice search a reality in the past few years. To estimate the impact that will have on 702 U.S. occupations, Frey and colleague Michael Osborne applied some of their own machine learning.

They first looked at detailed descriptions for 70 of those jobs and classified them as either possible or impossible to computerize. Frey and Osborne then fed that data to an algorithm that analyzed what kind of jobs make themselves to automation and predicted probabilities for the remaining 632 professions.

The higher that percentage, the sooner computers and robots will be capable of stepping in for human workers. Occupations that employed about 47 percent of Americans in 2010 scored high enough to rank in the risky category, meaning they could be possible to automate “perhaps over the next decade or two,” their analysis, released in September, showed.”

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Even though this has been going on for a while, I am scared it is getting ready to go into warp speed. The primary reason? A sharp spike in employee-related expenses due to rising healthcare premiums. You can search on the Internet about rising healthcare premiums for 2017, and the numbers are striking....very striking. Now, I won't get into a political discussion on the matter; however, a 15-25% in insurance premiums will catch your attention. It is even worse for individual plans on the various exchanges. This is going to be a mess, and a real problem for the DNC moving into the Fall...a real problem, once the true scope on the rate increases becomes more apparent to the common man.

While the 2017 rate hikes across the country, and across all health insurers, might not be the norm moving forward, the norm will be significantly higher employee-related costs which WILL put a damper on future pay increases and, eventually, employment. This is as sure as the nose on my face, and it will catch plenty of people by surprise, just as Lynn was back in 1993.

Of course, when one door closes, another one opens. I can only hope that door isn't yet another restaurant job for yet another American worker. If for no other reason, I really don't want to see another Employment Situation report as bleah or meh as the one the BLS released this morning.