Vol. 9, Issue 23
July 31, 2015

Something to Think About

OAKWORTH CAPITAL BANK

COMMON CENTS

This week, the Bureau of Economic Analysis (BEA) announced the US economy grew at a 2.3% annualized rate during 2Q 2015. It made all sorts of revisions to previous estimates, bringing up 1Q 2015 GDP to 0.6% from negative territory, and taking 2013 down to 1.5% from 2.3% among other changes. While the numbers might have changed, the story didn't: the US economy has been growing at a tepid rate for a pretty long period of time.

Unless something dramatic happens in the last 6 months of this year, we will have gone a full decade since the US had a 3% GDP growth rate in any calendar year. By this measure, the last 10 years, when combined, have been the weakest 10-year cycle since the end of World War II. Unfortunately, no serious analyst sees any real significant change in the foreseeable future.

Of course, if someone could look out into the future with crystal clarity, they would probably be at the track or some casino somewhere, putting down a string of small bets to stay under the radar screen of the IRS. Everyone else just has to make educated guesses, and I am one of them.

I have long maintained vibrant economic expansions occur when there is a fundamental change to how we conduct our lives and/or conduct business. This necessitates the building of new capacity. At the first part of the 20th Century, the US economy exploded when we built out utilities, you know water, sewer, gas, electric, and telephone systems. We built roads because of the automobile, and then we built suburbs because of the roads. Then we built interstates because of all of it. Finally so-called high technology took over, and we needed to beef up our nation's bandwidth, etc. I think you get the picture.

At each step along our economy journey over the last, say, 150 years, there has been an a-ha technology or infrastructure shift. You can see it in your mind's eye when you read history books. I would argue we haven't really had what I would call a seismic shift in some time, even as today's technological advancements are so much science fiction.

Therein lies the problem: the massive surge we have seen in technology in the United States hasn't required the buildout of new capacity to the extent it has made our existing capacity obsolete.

Take your smartphone as an example. It is an awesome instrument. I can make phone calls, take pictures, use the Internet, play games, and a whole host of other neat things. However, I could most of those other things previously; I just had to do them separately and/or with some delay. Further, by reading articles on my phone, I don't need to use as much paper. By taking pictures with the thing, I don't need to buy a separate camera or film, let alone having to pay for processing. Finally, closer to home, shoot, I can transfer money and deposit checks with an app, reducing my need to go to a bank branch, which makes those things increasingly obsolete.

I think you are getting the picture: today's technology is making us more efficient, in a lot of ways. However, that hasn't been showing up in the labor productivity numbers, which suggest our workforce has been, strangely enough, less productive recently. How now brown cow?

Well, labor productivity is really nothing more than a function of GDP growth and the growth in the labor markets. For instance, if output increases, say, 1% over a 12-month period, and the labor force grows 2%, obviously your workers are less productive. Conversely, if GDP goes up 3% while the

Inside this issue:

Something to Think About Cont.

number of workers shrinks, voila, you are more productive. So, just what is going on here? How can worker productivity be going down while our technological advancements are going up? The type of job growth we have had coupled with our efficiencies should be leading to greater GDP growth shouldn't it? Even if it isn't leading to astronomical growth rates, as in the 1980s and 1990s?

One would think, until you start looking at the types of jobs we have been creating.

Individually, any job is a good job. Period. A job creates a paycheck, which creates a consumer, and all is well with the world. However, this reminds me of a quote from Doctor Zhivago, which I have shared in this newsletter in the past. Here it is:

> "I told myself it was beneath my dignity to arrest a man for pilfering firewood. But nothing ordered by the party is beneath the dignity of any man, and the party was right: One man desperate for a bit of fuel is pathetic. Five million people desperate for fuel will destroy a city."

Another favorite of mine came from Mike Ditka; yes, you read that right. In discussing a lackluster NFL game where one team won 6-3, Dikta said something along these lines:

> "You know, you can win a game with a field goal, but I wouldn't try to make a habit out of winning football games with nothing but field goals."

The same can be said of trying to grow an economy by adding jobs which don't necessarily provide a new service or require the need for new capacity.

To that end, consider the following 10 industries/sectors which the Bureau of Labor Statistics (BLS) predicts will provide the greatest job growth over the next decade, or at least from 20102-2022.

2012 National Employment Matrix title and code		Employment		Change, 2012-22		Median annual wage, 2012 [1]
		2012	2022	Number	Percent	
Total, All Occupations	00-0000	145,355.8	160,983.7	15,628.0	10.8	$34,750
Personal care aides	39-9021	1,190.6	1,771.4	580.8	48.8	19,910
Registered nurses	29-1141	2,711.5	3,238.4	526.8	19.4	65,470
Retail salespersons	41-2031	4,447.0	4,881.7	434.7	9.8	21,110
Home health aides	31-1011	875.1	1,299.3	424.2	48.5	20,820
Combined food preparation and serving workers, including fast food	35-3021	2,969.3	3,391.2	421.9	14.2	18,260
Nursing assistants	31-1014	1,479.8	1,792.0	312.2	21.1	24,420
Secretaries and administrative assistants, except legal, medical, and executive	43-6014	2,324.4	2,632.3	307.8	13.2	32,410
Customer service representatives	43-4051	2,362.8	2,661.4	298.7	12.6	30,580
Janitors and cleaners, except maids and housekeeping cleaners	37-2011	2,324.0	2,604.0	280.0	12.1	22,320
Construction laborers	47-2061	1,071.1	1,331.0	259.8	24.3	29,990

Disclosure

This report does not constitute an offer to sell or a solicitation of an offer to buy or sell and securities. The public information contained in this report was obtained from sources and vendors deemed to be reliable, but it is not represented to be complete and its accuracy is not guaranteed.

This report is designed to provide an insightful and entertaining commentary on the investment markets and economy. The opinions expressed reflect the judgment of the author as of the date of publication and are subject to change without notice; they do not represent the official opinions of the author's employer unless clearly expressed within the document.

The opinions expressed within this report are those of John Norris as of the date listed on the first page of the document. They are subject to change without notice, and do not necessarily reflect the views of Oakworth Capital Bank, its directors, shareholders, and employees.

Something to Think About Cont.

What do you notice about most of those professions? 580K personal assistants and 424K home health aides? That sort of thing? These types of jobs only add to overall economic capacity if the person these people assist use the additional time to be more productive.

For instance, what if you were so successful you could hire a personal assistant to do the details in your life while you sat by the pool and read a book, maybe had a fruity drink? That would be awesome, wouldn't it? However, what is the real change in overall economic output in such a situation? Obviously, it is minimal, at best. At worst, you are less productive with your time, and the assistant is as well, because they could potentially be doing something more constructive. But what if you used the additional capacity your assistant provides in order to invent the next greatest widget? Well, that is a different story.

So, just what is going on? Well, intuitively, we haven't taken full advantage of the additional capacity all these assistants and all this technology has freed up. Further, our efficiencies have made much of our infrastructure obsolete. As such, the only way we can get out of the doldrums is for the most productive elements of our economy, you know the ones using assistants and technology, to kick some backside and come up with the next great thing as opposed to eating their money doing whatever it is they do.

Laughingly, this is the same as it ever was, and this too shall pass….once we get too uncomfortable with the current state of affairs. I give it another 5-10 years.

In the end, we have some demographic headwinds in front of us and a whole lot of obsolete capacity we need to absorb and repurpose. This is going to take some time, but I can live with 2.3% while it happens...but I will do my best to make it higher than that.