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OAKWORTH CAPITAL BANK

COMMON CENTS

Something to Think About

I will be more than happy to see this week in the rearview mirror.

After a great weekend seeing old friends at my 25th college reunion, I came back to a rusted out, or busted one, pipe in our walls. Since there wasn't a good access point, we had to rip down a bunch of sheetrock to get to it. Also on Monday, my daughter's car broke down, and, boy, wasn't that a fun check to write? To add insult to injury, our internet/WiFi, television, and even telephone went out, just as my kids were blowing the roof off our data plan. Do you want to know what fun is? Having the service down at the house as your kids live it up on LTE while you are at work, at an extra $15 per gigabyte. Of course, the provider lets you know about this after the fact with nice text messages throughout the day.

To make matters even better, as you may remember, the Dow Industrials was down in excess of 300 points on Monday. Sure, it came out of the gates strong on Tuesday, but after hitting an intraday high of 16,284.70, the markets stalled and fell about 160 points from roughly 9:45 to 12:00. However, while I was watching the markets swoon, dealing with the auto shop, setting up a service call with AT&T, remotely turning off my kids' phones (which wasn't well received I assure you), and going in and out of a full day of meetings, I came to a conclusion: "you know, Norris, it could be worse: you could be living in Syria. This ain't nothing, and certainly nothing more than you can handle."

Truthfully, and there honestly isn't any hyperbole in the retelling.

On Wednesday, while US investors and TV pundits were still agonizing over the perplexing Federal Reserve, the Russians decided they have had enough of the situation in Syria/Middle East, and got into the fray with some airstrikes of their own against the side(s) it doesn't like. Predictably, the US and its, um, allies denounced the attacks, even though they/we are in a lot of ways the flipside of the same coin.

However, the Russians claim they are only targeting terrorist groups like ISIS and al Nusra, and not targeting the FSA (Free Syrian Army) which purports to be more secular than the established terrorist groups. Coincidentally, the US claims it is targeting the same folks, and not trying to get involved in the, er, legitimate civil war between al-Assad and the FSA. In essence, both sides assert they are bombing the same folks, and both sides are upset with one another about it.

You can't make this stuff up, and the US has very few 'face saving' options at its disposal. So much so, of all the news we had this week, from busted pipes to broken down cars to falling stock prices to muddled monetary policy to you name it, the biggest story of the week, in my opinion, is the Russians deciding to get in the mix, for real, in Syria/Middle East.

Interestingly enough, the stock markets have behaved quite well since the Russians started bombing who or whatever it intends to obliterate. I think curious is an apt word. Who would have thought Vladimir Putin could swoop in and start blowing stuff up, and have the world's financial markets shrug in the process? I know I wouldn't have not so long ago. Something must be up, and I think a conversation I had with a carpool of teenage boys last night might provide some insight on the initial American reaction.

Inside this issue:

Something to Think About Cont.

Let me start by saying I wasn't expecting a group of 8th graders to start talking about this week's events in Syria, but they did. I will save you the conversation, and hit on some of my observations:

- They think Putin is a bad guy, and;
- They think Putin is a man not to be trifled with, right or wrong, and;
- They don't care or know enough about Bashar al-Assad to have a terribly sophisticated opinion, but;
- He is a bad guy, the terrorists are bad guys, and the people fighting al-Assad are probably bad guys, so;
- If Putin wants Russia to take out ISIS and other terrorists, more power to him, and;
- Why would we stand in the way of someone ready, willing, and able to do a lot of "our" dirty work, and;
- Putin is going to pound those guys into the ground whether we like it or not.

Hmm. There you have it.

In truth, from what I could find on the Internet about aggregate US public opinion regarding Russia's airstrikes, I would submit these 8th graders probably aren't as far of the mark as we would like to think. There is no other reason why I can think why the world's financial markets have shrugged this escalation of violence off almost completely, up until now.

So much so, consider the top headline on Bloomberg.com today: "Jobs Report Dims But Doesn't Kill Chances of 2015 Fed Rate Hike." CNNMoney.com didn't have anything obvious about Russian airstrikes on its landing page when last I checked nor did Foxnews.com. The New York Times had a small font link to an editorial on the issue on its website, and while The Wall Street Journal had it on A1, it clearly wasn't the lead story.

Everyone wants to talk about this morning's Employment Situation report. So, how was it? I mean it must have been really something to knock all the other news off the front page. Right?

I suppose it depends on whether you view the glass as half-full or half-empty. If you were already inclined to find bad news in the report, there was plenty for you to like. However, if you woke up with a sunny disposition, you know, it wasn't great, but it probably didn't spoil your morning either.

How can I put this? Okay, on a scale of 1-10, with 1 being the worst and 10 being the best, this report was around a 3.5 or so, maybe a 4 if your glasses are particularly rose colored, even more than Elton John's. So, let's call it a 3.5 or maybe a C minus, as far as jobs reports go.

After all, the economy created 142K net new jobs according to the Establishment Survey, and the Unemployment Rate held firm at 5.1%. Both of those are okay….not great mind you, but okay. However, peeling back the layers of the onion a little bit, it seems we had some folks drop off the workforce, actually more than some. Try on 350K for size, which caused the Labor Force Participation Rate to drop to another 38-year low at 62.4%. The primary cause? Well, there was a pretty sharp contraction in the unincorporated self-employed during the month, around 325K. So, while companies might have been adding a jobs, they weren't enough to soak up all those folks who had put themselves out

Disclosure

Something to Think About Cont.

into the job market for contract work, etc. In so many words, they said to heck with it, for whatever reason. Clearly, that is no way to grow median household income, by having 350K people opt out of the workforce. So, who said sayonara the most?

If you to break it down by race, 258K white people dropped out of the workforce in September. If you want to break that down by gender, 191K women and 67K men did so. If you care to do it by education, and the BLS does a less thorough job with this, of the 350K folks who left the workforce, 268K had a HS diploma (no college credits of any type) or less. Finally, the largest drop in the Labor Force Participation Rate by age was in the 20-24 year age demographic, which plummeted from 71.6% in August to 70.2% in September.

There you have it. You can play with those numbers to get your "average person," and what do you get? That's right, a large number of college-aged white women. We will have to wait a while to determine if these potential workers dropped out in order to go to (or go back to) school, but, intuitively, I think that might be the case.

So, if you want to break down the Household Survey to find dark clouds in the Employment Situation report, there they are: kind of predictable really. As for the Establishment Survey and the 142K net new jobs, well, that isn't the best number, but it isn't the worst either.

With the possible exception of 'support for mining services,' there weren't many negative surprises, and even that isn't what I would call a surprise….particularly in light of what many would call Washington's 'war on coal.' After all, in 2008, coal production in the US was around 1,171,809K short tons. Last year, it was 999,651K short tons, and the monthly average for 2015 is 75,857K short tons, which works out to about 910,282K. So, since 2008, that works out to be a 22% decline in coal production in the United States. That is pretty steep.

As for positive surprises, well, there weren't really any. It was a pretty benign report, with firms creating more jobs in the usual areas: healthcare, leisure & hospitality, government, etc. Again, this report was a C minus, and, initially, the markets hated it. I mean, clever types drove futures through the floor before the opening. Gee whiz, it was a lousy start to Friday, and why not, huh?

Then, something miraculous happened. You see, much of the consternation of the last several weeks has centered on whether the Federal Reserve knew what it was doing. Either that or perhaps it knew something the rest of us didn't. Either way, it wasn't good for stocks, and we threw the term 'uncertainty' around like a wet dish rag. But, you know, maybe the Fed's tea leaves suggested this report wasn't going to be all that red hot. Oh, it wasn't going to be flat out dreadful, but enough to put a tightening on hold for a while, a couple of months at least. And, if that is the case, you know, I can take a 142K jobs report with a 5.1% Unemployment Rate any first Friday of the year.

In fact, I love it! The economy is growing enough to continue to add 142K jobs each month, but not enough to alter monetary policy anytime soon. So, modest growth, low energy prices, and low interest rates!!!! When is that not cause for a celebration? And at precisely 9:07 am CDT, the markets decided to party, with the Dow Industrials rallying a whopping 452.10 points from that moment to close the week at 16,472.37.

So, by noon on Tuesday, my week had gotten off to a very bad start, and I mean awful. Broken pipes in my house; a broken car in the driveway; Broken modems/routers, and a stock market that was already down 353.1 by lunch on the second trading day. Couple that with an apparently at sea Federal Reserve, and were looking kind of bleak.

But you know something, and I know this is spurious correlation in the extreme, but it sure seems like things started to look up this week when the Russians began their shenanigans. I beg of you to take that very tongue in cheek.

However, and I can say this, unlike the Federal Reserve, when Vladimir Putin makes it clear he intends to do something, like get involved in Syria in a big way, well, he does it. Pretty simple, really. Yet, we can go through reams of paper, data, statements, interviews, speeches, and whatnot to still wonder what in the world the Federal Reserve is going to do. The former drops bombs on people he doesn't like, and the latter maybe raises the target lending rate between commercial banks by 0.25%....or maybe it doesn't.

In the end, the car, pipes, and internet are all fixed. The markets are all up, and it is about 65 minutes until quitting time (if there really is such a thing). This was a rough week, but it is over. So, Russia who?