

## Something to Think About



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### COMMON CENTS

Years ago, I tied myself in knots over little league baseball. Gosh, it seemed so important at the time, and my son was a pretty decent player. However, I resisted the siren song of hiring batting and fielding coaches for my son, despite much advice such things were absolutely necessary for his success. Perhaps he would still be playing the game had I done so. Only The Shadow knows, but I doubt it.

My contention was, and still would be, a batting coach will potentially improve an already good hitter, but, and here is a country cliché for you, you can't make a silk purse out of a sow's ear. If a kid doesn't have some minimum level of eye-hand coordination, no amount of 'coaching' is going to turn them into a great player. For my part, I thought it an extraneous expense in the 2nd and 3rd grades, but would have willingly shelled it out had my son stuck with the sport up to middle school. He didn't, and I didn't force him to do so.

That old bumpkin phrase about silk purses and sow's ears is pretty appropriate for a lot of things in life, whether it be elementary school athletes, local economies, or even individual companies. There has to be something from which to build.

This past Monday, I sent an email to all of the client facing associates at Oakworth. It listed a few of the big events for the week: the FOMC /Fed meeting, this morning's Employment Situation report, and Apple's 1Q earnings announcement. I felt these three had the biggest potential to 'move the markets.' No, I wasn't really expecting the Fed to do or say anything shocking, but you never know until you know. Further, I didn't suspect the jobs number would be terribly surprising, one way or the other. While slightly better than expected, the reported 211K net new jobs number fell just inside one standard deviation from the mean estimate (survey size of 90).

In truth, I thought the Apple release had the best potential to put a charge in the markets. That is IF the company had reported much better than expected quarterly results. It didn't, beating the profit estimate, but slightly missing on the anticipated revenue and iPhone units sold. Basically, the company's report was the earnings release equivalent of a decent grilled cheese sandwich. While okay, it is still a cheese sandwich and not a steak, if you catch my drift. As you might imagine, everyone was hoping for the latter.

Oh, the market kind of tried to take the stock down immediately following the results, but you kind of sensed the heart really wasn't there. The reason? While others might have any number of sophisticated explanations, I would submit simply the following: it's Apple, a pretty well-run company with the best brand in consumer electronics/technology. Trust me, some lesser firm probably wouldn't be trading above where it was before its somewhat disappointing earnings announcement, as Apple currently is (as I type), had it missed its revenue and units sold target(s).

Blending my analogies and clichés to this point: Apple is a silk purse with good eye-hand coordination. While kind of a weird thing to write, that is about it. Further, I have discussed two out of three I listed above, elementary school athletes and individual companies. You know what comes next: local economies.

Obviously, I live in Alabama. So, most of the rest of this newsletter is going to focus on how

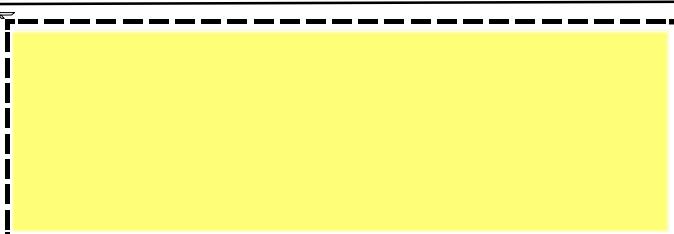
#### ***Inside this issue:***

Something to Think About

1-3

Disclaimer

2



## Something to Think About Cont.

things are here. If this is of little importance or interest, please have a safe and happy weekend. We will see you here next Friday, the good Lord willing and the creek don't rise. Man, I am full of country clichés today.

According to the Census Bureau's 2015 estimates, 4,855,847 people live in the State of Alabama. The vast majority of us live in one of the 12 designated metropolitan areas, roughly 75%. What's more 53.9% of Alabamians live in one of the five largest metro areas. In order, they are: Birmingham-Hoover, Huntsville, Mobile, Montgomery, and Tuscaloosa (the Big 5). *To be fair to my friends in bay area, the official Mobile MSA includes ONLY Mobile County. You, or anyone for that matter, could make a sensible argument the Mobile MSA could/would/should also include Baldwin County, AL, and Jackson County, MS. This would add about another 340,000 people to "Mobile." However, I am not with the Census Bureau, and it is what it is.*

Perhaps not surprisingly, Alabama seems to have two economies: one for its metropolitan areas, and another for everyone else. Let me give you the math, which I did in order to write a recent newspaper column:

In 2015, if my math is correct, the Big 5 had a per capita Gross Domestic Product (GDP) of \$46,238 in constant 2009 dollars. This would have ranked somewhere between Kansas and Wisconsin, which aren't our normal comparisons, and be good enough for 28th place nationally. Further, it would be well above Georgia, Tennessee, Florida, and, as you might imagine, Mississippi. Rah rah, right?

Well, I suppose if you live in one of those areas. However, the state, as a whole, had a per capita GDP of \$36,773 in, again, those constant 2009 dollars, which puts us down with the usual suspects and comparisons. Since there is such a wide variance between the two numbers, you can intuit per capita GDP for the rest of the state was significantly lower than it was in the Big 5. It was.

My calculations suggest per capita GDP in Alabama outside of our 5 largest metro areas was around \$25,710 in 2015. By comparison, Mississippi's was \$31,504, according to statista.com. Hmm. This would certainly seem to support my early contention: Alabama has two economies, one for the metro areas and another for everyone else.

To be sure, Alabama is not alone in this regard. It stands to reason population centers will offer the greatest economic opportunity and, therefore, activity. The reason is simple: there is a base off which to build.

Some years ago, I made a presentation in the northwest section of the state. The organizers asked me to discuss the economic potential and/or ramifications of having the 'new' interstate (I-22) cut through their county. My comments were to be 10 minutes or less, and so they were: "good." However, I didn't really have the heart to tell them having I-22, from Birmingham to Memphis, probably wouldn't be as attractive for economic development as having, say, I-85 or I-95. Regardless, it was a base builder, and having an interstate 'run through it' is better than not having one.

But what of 'rural' Alabama? Those areas which don't have a major population center or an interstate? Those places which don't even have a hospital or a Department of Motor Vehicles? Where the train tracks gather rust? What of them?

The truth is there isn't a whole bunch to be done, as it would be extremely difficult to attract business to any location which didn't/doesn't have adequate infrastructure and access to the nation's distribution network. Impossible? Of course not, as very little truly is. Extremely difficult? Consider this:

I mentioned the Big 5 in Alabama, and the per capita data I provided including the other 7 metro areas of the state. What if 'we' took those out to focus only on non-metro Alabama. What would that data look like? As you can imagine, it looks even worse.

Per capita GDP in non-metro Alabama was around \$22,557 (constant 2009 dollars) in 2015. That would have been roughly 45% of the overall national average AND 72% of Mississippi, which is a usual comparison. Further, it was 3.9% less than what it was in 2010 (\$23,463). You know, we always throw out Mississippi as an example here in Alabama. How about another one? One that puts it into even better perspective? Okay, how about Panama? That seems to be a fair comparison in PPP (purchasing power parity) terms according to most sources' 2016 estimates.

## *Something to Think About Cont.*

Admittedly, per capita GDP can lag population growth. Put another way, per capita economic output can and will fall during periods rapid population growth. This is not the situation at hand.

In the 2010 Census, non-metro Alabama had a population of 1,224,287, roughly 25% of the state's population. This would include micropolitan areas like Scottsboro, Selma, and Troy, as well as areas more commonly considered 'rural.' According to the Census Bureau's 2015 estimate, this non-metro portion of the state contained 1,212,857 people, a decline of 11,430 or 0.93%.

All told, non-metro Alabama had a 4.8% contraction in economic activity between 2010-2015, which works out to 0.97% annualized. By comparison, the national economy grew 9.9% during that time frame, or roughly 1.9% per year. So, an area which was already behind has fallen behind even more rapidly over the last 5 years.

But what is the economic solution for this portion of our state or portions like it in other states? For places like Greene or Perry County?

Unfortunately, the population decline in some areas has been so great the ability to provide basic services has become incredibly difficult, if not almost impossible. This has led to a proverbial 'death spiral' from which it will be difficult to escape. Loss begets loss begets loss. For grins or frowns, as the case may be, both of the aforementioned counties currently have fewer residents than they did in the 1830 Census, by over 15% each. Further, the population losses seem to be accelerating thus far this decade when compared to last. In essence, the future is bleak for the continued existence of those particular governmental entities.

It is hard for me to comprehend what I just wrote: over 15% fewer people living in the same geographic location(s) than almost 200 years ago. While somehow morbidly fascinating, I still haven't answered my own question: what is the economic solution for this portion of our state?

Let me get the obvious out of the way: there isn't a short-term solution. The decline in our non-metro areas has been decades in the making, and will take decades to change. The base has been broken, and someone or something needs to fix it. This means the repairing of roads and schools with money from a magic hat. It means attracting the most highly qualified young teachers to replace those retiring. It means tearing down abandoned buildings. It means reforming our property tax laws to ensure more of the tax on the local land stays in the locality. It means having the rest of the state concluding: better schools, roads, and infrastructure are important to me, and I am willing to pay a little more to get them even if I will be yelling and shouting like a madman when they come to get it.

Hey, no one likes taxes, let alone higher taxes. However, until the private sector wants to take on the responsibility of constructing and maintaining all of the nation's infrastructure and schools, you know, we are going to have them, as only the government(s) has the economies of scale and breadth of scope to tackle such things. Is government inefficient? Yeah, and wastes a horrible amount of money...a real rat hole at times.

Still, you want a base off which to grow your local economy? It starts with citizens willing to pay for those things which are important to them. If it is batting lessons, so be it....but good luck with that.

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