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OAKWORTH CAPITAL BANK

COMMON CENTS

# Something to Think About

You would think 60 Tomahawk missiles into a Syrian airbase might cause some consternation in the world's financial markets. I certainly thought so last night when the news came across the television. In fact, the first thing I did was look at stock futures and the Asian exchanges to see how they were responding. At the time, they wobbled a little, but not as much as I would have thought. This morning, it would appear as though "God is in His heaven and all's right with the world."

Outside of the anticipated condemnations from Syria, Russia, and Iran, it appears the rest of the world, those countries which matter at least, is okay with United States wiping out a sizable chunk of the Syrian Air Force. Certainly, not everyone will be in personal agreement with the Administration's decision, but if actions speak louder than words, the global response has been: so what? At least up until 9:37 CDT on April 7, 2017, that is.

As an aside, in today's political correct society, I am frankly kind of surprised we still call these intermediate-range missiles Tomahawks. It seems this nomenclature would offend someone, somewhere. I suppose "one-handed ax used as a tool and weapon by pre-contact Native Americans in the United States" doesn't have the same ring. It would certainly take up more space on the side of the thing to no real effect.

The real story today is the Employment Situation report for March 2017. The Street had been looking for an increase in non-farm payrolls of around 180K, with a range in the official estimates being 100K to 267K. Back when I was at Regions Financial Corporation, I used to participate in this survey, and others. So, I know the work that goes into concocting the numbers. As a result, I don't put too much faith in them. Ha. While a fun thing to do when I was younger, it really is kind of a waste of time.

Even so, the Bureau of Labor Statistics (BLS) announced the economy created 98K net, new payrolls last month which was, obviously, below the lowest estimate. Ordinarily, you would think this type of 'miss' might cause the markets some heartburn, but it hasn't thus far. First, in the grand scheme of the things, what is 2-82K jobs in a 160 million person labor market. Oh, I will spare you the math: it is a rounding error, virtually statistically irrelevant.

Second, and this is more important, there was a real disconnect between the so-called Household and Establishment Data sets. The former is a survey of actual individuals, and the latter is one of HR departments, for all intents and purposes. The margin for error is going to be greater with the Household Data since there are more households than HR departments across the country.

With that said, while there are frequently vagaries between the two data sets, the differential between the two was wider than normal this past month. In so uncertain terms, the BLS is going to going significantly revise one or both sets of the numbers in the not so distant future. After all, how can the Household survey suggest 472K more jobs in March and the Establish only came up with 98K? Again, there can and will be monthly discrepancies, but these two sets ordinarily converge at some point. If not completely, the trend lines will end up having the same relative slope, if that makes sense.

Third, when the numbers aren't to your liking, you can always blame the weather. To that end,

***Inside this issue:***



**You don't despair about something like the Middle East, you just do the best you can.**

**P. J. O'Rourke**

## *Something to Think About Cont.*

Winter Storm Stella, which I had already forgotten about, is getting a fair amount of the blame for the weaker than expected payroll number. The logic is the hiring process slows to a crawl when offices are closed or operating with a skeleton crew, or something along those lines. Go figure. When I worked in Baltimore, I was supposed to be there at 8:00 am, come hell, high water, or a foot of snow. When in doubt, I stayed across the street at the Radisson Lord Baltimore Hotel, which had a good happy hour with a veritable smorgasbord of finger foods for the offing.

In the end, this month's data will likely change. Further, if WS Stella is really a primary culprit, the April payroll number will jump accordingly. So….what did we learn about the strength of the US economy from this morning's Employment Situation report? Not too much, in aggregate.

As a result, there is an element of 'keep on keeping on' at work. The brass ring, the prize if you will, is the potential for significant tax reform, namely corporate tax rate reductions, in the not so distant future. The markets are still holding out hope for this. Until such time it becomes apparent 'we' will either get or not get this, the path of least resistance is to not make too many significant changes to investment strategy. By that, I mean not deviate too much from the current equity allocation, in aggregate.

Shifting gears, I wanted to share what I wrote from my newspaper column. Those that read this newsletter with regularity know I do this from time to time when I feel my column is particularly pertinent. While my most recent submission to the newspaper is not germane to today's price action, or short-term market conditions for that matter, I like/liked it, and it is certainly 'something to think about.' So, here goes:

> Recently, a client asked me the difference between consumer staple and consumer discretionary stocks. I told them a consumer staple company makes those products and services you have to buy, and consumer discretionary ones make that which you want to buy. The examples I gave of each were Proctor & Gamble and General Motors respectively.
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> They told me they hated the car industry as an investment, and gave me a laundry list of the usual reasons: too much competition chasing too little potential for growth; the inevitability of another crude oil shock, and the capital intensive nature of the business. While these are all very valid, I told him my concerns were more structural than that.
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> We have plenty of elbow room in Alabama. Our population density per square mile is 23rd out of the 26 states east of the Mississippi River. This means we have a longer way to haul stuff than the good folks do in, say, New Jersey. Put another way, most of us actually have to get in the car to go to the grocery store.
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> However, what of people in metropolitan areas like Philadelphia, Boston, New York, San Francisco, Chicago, and Miami? These people live on top of one another, have access to reasonable public transportation, and have smaller residences requiring less stuff to haul. What do they need with a car, a car note, car insurance, and all of that which goes along with ownership?
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> They really don't, and I knew a fair number of people in Baltimore who didn't have a car when I lived up there. Yeah, it seemed bizarre to me at the time. It no longer does.
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> Within 5 years, if that, on demand, driverless cars will be a commercial reality. Alphabet's Waymo subsidiary and Uber are already hard at work getting all the pieces in place to make it so. We will likely pay for this service like we do our cell phones, a monthly fee plus usage like your data plan.
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> So, no more car notes. No more car insurance. No more gasoline. No more things like tires, wiper blades, oil changes, brake pads, and car washes. None of it, as that will be part of your monthly fee.
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> Think about it. How much time do you actually spend driving your car on a normal day? Now, take all the costs associated with owning your vehicle, and divide that by the amount of time you sit behind the wheel. This number is going to be much higher than you think. What if some clever company can get you where you need to go for less than half that amount? Shoot, a third or a quarter?

## *Something to Think About Cont.*

In Montgomery, the catch would be having to wait a few minutes for your car to arrive. In New York, the service would undoubtedly be faster than walking or taking the bus to the parking lot. As a result, private car ownership in densely populated cities, counties, and states will decline, perhaps precipitously, once this becomes commercially widespread.

Of course, there will be a lot of special interest groups throwing up roadblocks, pun intended, along the way. Eventually, however, this will be a reality, and I told our client that.

Do you want to know what else I told him? I told him we would also buy a bunch of beer and alcohol company stocks when all of this happens, for obvious reasons. For grins, those are consumer staples.

This isn't [baloney], I actually had this conversation with a member of an investment committee for an institutional account for which we invest money.

Yesterday, while driving in rush hour traffic to pick up my son from soccer practice, I wondered just how this would take shape in Birmingham, and other sprawling metro areas like it. I came to a not so startling conclusion: it will take some time, a lot of time, and it won't be as successful/popular as it will be in more congested/densely populated cities. It won't even be close.

However, what happens IF said service decreases car ownership in the US by 'only' 20%. What would that mean? Well, current estimates are there are 797 motor vehicles per 1000 US inhabitants. If we estimate 300 million Americans, that means there are 239.1 million vehicles on the highways and byways of the country. This includes commercial fleets and public transportation, all of it, but let's go with it for the sake of simplicity.

From what I could easily glean on the Internet, the average life of vehicles in the US is around 11.5 years. If so, this means, what, roughly 20,791,000 rolling off each year. A 20% reduction would, therefore, result in 4,158,200 fewer vehicles produced and sold in the US each year. Think that would have an impact on overall US manufacturing output, and the accompanying multiplier effect including employment? Not just at auto plants and suppliers, but also mechanics, detail shops, and even bus drivers, etc. There are a lot folks economically dependent on our love of automobiles.

Of course, 'we' would have to produce the driverless vehicles to make up the difference. What if that works out to be 1 vehicle per 10 former owners. Well, we still come up around 3.6 million fewer. No matter how you put it, that is still more than the number of 'light vehicles' General Motors sold in the United States in 2016, by well over 500,000.

On the flipside...

According to the EPA, the 'typical passenger vehicle emits about 4.7 metric tons of carbon dioxide each year. So, let's multiply that by 3.6 million few vehicles on the road. What does that work out to be? 16,920,000 metric tons. That is year 1. By year 5, it really starts to make a difference if the math is true and holds (which it almost never does really)….equal to a 'savings' equal to all of Romania's annual CO2 output. By Year 11.5, we will have cut down on carbon dioxide by about 225 million metric tons, about the same as all of Egypt (all sources) in a calendar year. As crazy as those numbers are, they are but a drop in the proverbial bucket.

## *Disclosure*

## *Something to Think About Cont.*

Whew…..sometimes I wish I didn't think like this, but I can't help myself.

I **really** can't help myself on days as beautiful as this one is today in Birmingham. Gee whiz. Throw in a strangely hum-drum market despite renewed Middle Eastern strife and the always important Employment Situation report, and you get economic newsletters as listless as this one has been.

Have a great weekend.