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Something to Think About

OAKWORTH CAPITAL BANK

COMMON CENTS

It has always been prudent to choose your words wisely and avoid inflammatory issues when writing newsletters and newspaper columns. However, in the past, it was more difficult for readers to reach out to you with their opinions. This disconnect, if you will, between the writer and the reader probably engendered a more constructive flow of actual information and opinion

I started writing the precursor of Common Cents in 2001, I believe, and a weekly column for the Montgomery Advertiser in 2005, or was it 2006? Regardless, I have been writing for a wider audience for over a decade, and one thing has definitely changed: I no longer receive actual letters in the US mail from people who have an opinion, usually strong and opposite, on something I have put forth. And why would I?

According to the US Census, an estimated 51% of US households had a computer in 2000, and slightly less than 42% had access to the Internet. This is important, as you obviously have to have a computer and Internet access to send an email. To that end, UC Berkley estimated global users hit send on roughly 31 billion emails per day in 2001. In 2015, the most commonly accepted estimate for daily global email volume appears to be north of 205 billion. That number doesn't include texts, tweets, or posts, and, if my email inboxes are any indication of normal, it seems a little low.

As an aside, AOL used to have a little voice announcing "You've Got Mail" whenever you received an email. If our business email or my Gmail account did the same thing today, it would drive me nuts.

I tell you this for a reason. In the past, you had to have a pretty strong opinion to want to physically sit down and write a letter expressing either distaste or pleasure. As a result, I would intuit, perhaps even argue, people were better able to compartmentalize and prioritize that with which they disagreed or even agreed. After all, a mild offense taken certainly wasn't worth the trouble.

These days, it is easy enough to fire off an email, post, text, or tweet, so why not? Our technology now enables you to have an expressed opinion on quite literally everything. Better yet, you don't have to vet it for tone or grammar. #angryallthetimeandoffendedbyeverythingalwaysandforever.

Some months ago, I wrote what I considered a completely throwaway piece for the Advertiser, slightly better than travelogue, on the importance of selling yourself in the business world. Basically, most people will have to put themselves "out there" with external and/or internal clients in order to achieve meaningful career success. After all, there are extremely few people who are so absolutely brilliant they can succeed in the private sector without driving revenue in some manner, while being truculent and/or aloof in the office.

I was so underwhelmed with the article, I told a co-worker: "of all the unmemorable articles there have ever been, this is certainly near the top." However, soon enough, "You've Got Mail," and I couldn't believe what I read.

In fact, I had to read it several times to see if I was somehow misreading or misprocessing what the person had written. I kept coming back to the same conclusion, so I asked a co-worker to read

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it. He did so, twice, and then said to me: “man, that guy really, really doesn’t like you. Why do continue to write that column?” In truth, I have had people call me any number of names in an email which decorum prohibits relaying here. However, at no time had I read such a well structured and damning correspondence, which in my/our processing, suggested I was a idiot of the highest magnitude….and they had always considered me thus. It was kind of breathtaking someone had taken so much time in order to be so unpleasant over something so stupid. A quick “you’re a moron” or “says you”? No sweat; those are a dime a dozen. But this? This was well over a full 8.5” x 11”, and well written….as much as I hate to admit.

So, I responded back, which I probably shouldn’t have, I was sorry the reader hadn’t liked what I had written, but that I stood behind what I had written, if not every word choice then certainly the overall message. I further suggested he quit reading my column if it usually made him angry, as life is too short. I didn’t have to wait long for their reply, which basically suggested they were amazed I had so easily dismissed their attempt at a meaningful exchange. Basically, they hadn’t intended to offend as much as open a dialogue.

You know, I wish I had all that time back, and I am certain they probably wish the same. It was completely unproductive.

Believe it or not, this has a point. Simply put, according to the Bureau of Labor Statistics, US worker productivity has been waning, at best. There has to be a reason for it.

Where the rubber meets the road, worker productivity is essentially a function of the change in the GDP calculation and the change in the workforce. If real GDP is growing faster than the percentage increase in workers, intuitively, productivity is rising. While there is more to the calculation than that, for cocktail party conversation you can think of it this way: if GDP grows 4% and the number of payrolls increases 2%, worker productivity is 2%. You know, that would be a pretty dull party IF that was the topic for discussion.

Over the last 4 quarters, worker productivity has fallen 0.40%, on average (non-weighted and non-chained...merely the average of the quarterly observations). Over the last 12, it has increased 0.62%, again on average, and it has been 0.5% over the last 20 quarters. So what? Well, the 50, 40, 30, 20, and 10 **year** averages are as follows, respectively: 1.87%, 1.77%, 1.87%, 2.00%, and 1.17%. For this century, the average quarterly data point has been 1.84%.

So, it would seem US worker productivity has been on a downward trend for over a decade, and has recently been in negative territory. Historically speaking, this type of performance is not suggestive of a sharp increase in wages. I mean, employers aren’t going to pay workers for producing less, are they? More than likely not, unless forced to do so by the guys with the guns, the really big guns. Further, there seems to be a positive correlation between worker productivity and next period GDP growth.

I took the average quarterly observations worker productivity of every calendar year going back to 1947 and compared them to the next calendar year’s GDP growth. Using my handy dandy Excel add-in function, it appears there is a +0.62 correlation between these two data sets. While far from perfect (and there would be any number of serious mathematicians who might think I only scraped the iceberg with my methodology), this is not the calculation you desire when

Disclosure

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you want to tell clients to expect HUGE returns in their investment portfolio over the next 12 months.

Certainly, there is more to the stock market than running some simple correlations of historical data sets in Excel; however, intuition suggests negative worker productivity isn't an ingredient in the recipe for rapid acceleration, at least not in anything you would want. Let alone when it is apparent the Federal Reserve has an itchy trigger finger.

But what is the cause for this?

There are any number of reasons, enough to fill PhD dissertations. However, it should be curious to just about everyone how we have seen an enormous spike in instantaneous information and communication AND US worker productivity has been virtually non-existent over the last 5 years. What if this radical leap in technology has somehow made us less productive, at least in terms of GDP growth?

It is an interesting concept, and would certainly be unique. After all, developments in communication have ordinarily spurred economic output and worker productivity, not the other way around. However, when you step back and review the situation, is it that far fetched?

How many times have you been in a store or restaurant, and the staff is on their phones texting or playing a game? How much time do you spend each day deleting or responding to emails? How much of those are really all that important OR could have waited until you got home?

Speaking of which, according to the National Highway Traffic Safety Administration, there were 5,419,000 reported 'road accidents' in calendar year 2010. In 2015, there were, get this, 6,296,000. That is an increase of 877,000, and represents a 5-year annualized increase of 5.1%. Trust me, our population hasn't grown at a 5.1% annual clip since 2015. This means, or should I say suggests, our driving has gotten worse….in general and using this as the definition.

According to statista.com, over that time, so-called 'smartphone' use has increased from 62.6 million Americans in 2010 to over 107.5 million in 2015. Pew Research puts smartphone usage at 35% of American adults in 2011 and 68% in 2015. That is a lot of potential drivers having a powerful device with which to be distracted.

While this is good business for my friend Tad, who owns a body shop (which I would recommend for detailing as well), it isn't necessarily good for the economy. After all, if you have to spend money just to get you back to where you originally where, that isn't necessarily growth in the aggregate equation.

So, perhaps we need to put down our smartphones and quit sending out so many emails, as this doesn't seem to make us any more productive. As I have suggested, the numbers suggest the contrary. But what does this have to do with the markets?

Admittedly, not much. It has just recently been on my mind. What? Let's just say the bad news is it took me an extremely long time in the store. The good news is I got to listen to a not too terribly interesting personal conversation one of the clerks was having. It isn't up to me to tell them to get off the phone, but it is up to me not to shop there again in the future. There should be a corporate policy everywhere.

Further, how to explain the markets? GDP growth is tepid; has been tepid, and proves to be tepid. Earnings growth has basically been non-existent for the last 4-5 quarters. The Fed appears to want to raise the overnight lending target regardless of a laundry list of reasons why it doesn't need to be in a huge hurry to do anything. Everyone was worried to death about Deutsche Bank yesterday, and not so today. Did you see the debate this past Monday night? I won't bore you with every brick in the proverbial wall of worry.

Still, investors continue to take stock valuations ever higher...near the top of the range. The money just keeps flowing into the markets, particularly from other countries who are more messed up than we. Hey, I ain't trying to look a gift horse in the mouth here. We run a fee-based business, and higher market valuations are great for bottom lines and all that jazz. However….

If the global financial markets were the land of the blind, the US would be the one-eyed man. We aren't making any drastic changes anytime soon, but the more we go up in 2016, the less we will do so in 2017.