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COMMON CENTS

This morning, I read an article on Bloomberg about the “fizzle” in manufacturing job growth in the United States. Over the last 12 months, according to the Bureau of Labor Statistics, the US economy has created 24,000 manufacturing jobs. Over the last 6 months, it has shed 24,000. Yes, it supposedly created 14,000 in August, but it cut 16,000 in July.

While these types of numbers aren't cause for pulling out your hair, they are far from the expectations many analysts had for the manufacturing sector not so long ago. Surely, US exports are at an all-time high, and that is a very good thing. However, US manufacturing really hasn't grown terribly much over the last, well, pick your time frame.

Yes, we might produce a lot of stuff here in this country; however, when you adjust for inflation, manufacturing output has trailed overall economic growth pretty significantly. If my math is correct, and I have no reason to think it isn't, real manufacturing output has increased 1.21% per annum since 6/30/1963, 50 years. Over that same time, Gross Domestic Product, as a whole, as grown 3.04% per annum.

Following a sharp spike after the global economic spike, manufacturing output in the US has slowed significantly recently. Over the last 12 months, through June, US production output has increased 0.21%. Over the last 24 months, it has grown 2.67% per annum, and over the last 36, it has surged 5.75% annualized.

While any growth is better than no growth, it is concerning to see output stagnate like this, if stagnate is the right word. Why is this happening? Our energy is cheap. We have a literate workforce, or so we believe. We have a large domestic market, and have access to the latest technology. Our labor laws are more flexible than most of the developed world. On August 30, 2013 the US currency had depreciated over 15% compared to a basket of other “reserve currencies.” I mean the list goes on and on and on.

Manufacturing should be taking off in the United States right now; not growing at a 0.21% annual clip over the last 12 months, 0.85% for the last 18 months, and less than 3% over the last 24. Yes, global economic growth has cooled a bit, and our economy is far from red hot, but 0.21%? Really? Hey, I used data straight off Bloomberg. Hmm.

While I was reading this story, for whatever reason, two seemingly disparate personal events came to mind. One happened just this morning, while the other occurred some time ago. They rattled around in my head, becoming intertwined until I finally figured it why they had come to me.

This morning, my daughter was to meet several of her friends at a bagel shop for breakfast in a village in our neighborhood. Although the agreed upon time was 7:15, my daughter wasn't ready to leave our house until 7:20, and I still had to take my son to his elementary school before dropping her off anywhere.

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Daddy, can I have \$10?

Anne Frances Norris

Something to Think About Cont.

Frankly, I was a little put out. The Crestline Bagel shop is about 6-7 minutes from our house with morning traffic, and I didn't see any point in taking her. After all, she still had to walk to her junior high school from there, about a 15 minute hike I would imagine. She was wearing thin sandals, and was carrying two bags full of just...just...stuff as well as a tennis racket.

When we finally got in the car, she was insistent I drop her off before taking my son to school. Never mind the fact this would be completely, and utterly, ridiculous. My son's school is near our house, but in the opposite direction of the bagel shop, which happens to be on my way to work. So, her insistence was met with my resistance, and I happened to be behind the steering wheel.

When we were about 3-5 minutes away, after dropping off my son, she asked me: "Dad, can I have \$10 for Crestline Bagel?"

"Why should I have to pay for your breakfast, when we have plenty of food back at the house?" I asked

"Dad...I don't have any money."

"Well, you need to start thinking about a way to earn a little money, so you can do things like this without hitting me up."

"I would babysit, if people would call me to do so."

"How are people to know you would if you don't let them know? When was the last time you dropped off fliers in mailboxes or anything like that?"

"Why are you being so mean this morning?"

"I have \$4 on me. You are welcome to it, but you are going to have to figure out a way to pay me back...either with money or work."

"\$4? I need at least \$6 to get what I want at Crestline Bagel!"

"Let this be a lesson to you Annie. If you had some cash of your own, you wouldn't be in this predicament...late AND broke...now would you?"

"Dad...I am only in 9th grade!"

"Boo, I understand you are only in 9th grade. However, I also understand I wasn't meeting my friends for breakfast before school in Crestline Village when I was in 9th grade."

The rest of the story, if you care, is I was able to find a parking spot literally right in front of the store. So, I went inside to get a cup of their good coffee, and I put her blueberry bagel with cream cheese, and 3 sugar cookies decorated in Auburn colors (for the ladies in our department), on the debit card. My daughter texted me literally 4 minutes later to tell me they were on their way to school.

While that was floating around in my brain, for some reason I started thinking about a time, I don't even remember how long ago, when we invited my sister and brother-in-law over for dinner. My wife wanted to make a recipe from her mother's family, something we call Johnny Masetti.

This is a pretty basic dish, really. Shell shaped pasta; ground beef; cheddar cheese; tomato soup; tomato sauce, and enchilada sauce are the primary ingredients. You 'doctor' it up, if you will, with diced onion and green peppers, that type of thing. In so many ways, it is comfort food, which is a creative way of describing relative inexpensive, calorie dense dishes which most everyone likes.

While I like Johnny Masetti, I don't love it the way Beth (or my daughter) does. The reason is pretty simple: I like spicy foods, and the basic recipe for this dish just isn't spicy enough for me. So, that evening, after my

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wife had stirred everything together, there was only one thing left to do: transfer the Johnny Masetti from the stock pot to the casserole dish. Even I could do that, right? So, she asked me to do so, while she went back to get ready. Seeing my chance to add a little zip to the thing, I went into action.

Some black pepper found its way into the pot. So did some minced garlic. A dash or two of hot sauce, okay more than a dash or two, went in there. Oh, I was on a roll, and searched our spices to see what else I could add. Cinnamon? Yeah, cinnamon sometimes goes well with beef dishes, believe it or not, so I threw a dash in there as well. Trust me, it wasn't more than 1/4 teaspoon in a large pot filled with a box of shell noodles, more than a pound of beef, onions, peppers, tomato sauce, tomato soup, and the enchilada sauce. 1/4 teaspoon? Shoot, maybe an 1/8th!

So, stirred it all up, put it in the Pyrex dish, covered it up with the requisite amount of cheese plus a handful, and stuck it in the oven. Good times....good times. Man, this was going to be good.

After she took her first bite, my sister's face said it all: something wasn't right with the dish. In fact, something was very wrong. My wife's face had the same expression. My brother-in-law just keep eating, and my first reaction was: "#\$%^&*!" How could that small amount of cinnamon turn a very basic noodle, beef and cheese casserole into something so much more sinister? Evil even.

Oh, there was no amount of wine that could wash the taste out of our mouths, and, trust me, we tried. It was so awful, so awful, my wife still teases me about it today, although she wasn't in a teasing mode that night. "What were you thinking? Couldn't you have just added some hot sauce to your plate if you wanted it more spicy? Why did you have to ruin it for everyone else? Do you know how hard I worked on that thing, and how much I had bragged about the dish to your sister? That was embarrassing; why did you do it?"

Frankly, I deserved it, and more. To date, I am not allowed to make Johnny Masetti...which, you know, is okay with me.

Now, manufacturing, bagels and ruined casseroles....I couldn't figured out the connection, until it suddenly dawned on me: we expect things to work out in our favor here in the United States, even when we go out of our way to screw them up.

Here is what we would like: a vibrant manufacturing base, which employs a large number of people and pays a comfortable wage. This is a virtuous cycle. The more we make, the more we consume. The more we consume, the more we produce, etc. Round and around we go. Where we get off, no body knows...but why do we have to get off?

In fact, let's make it even better. Let's have a 5-day work week, and overtime pay. Let's throw in healthcare

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benefits, retirement plans, and paid vacation time. Let's make sure our citizens have safe and clean environments in which to work. Let's make sure our factories don't pollute the environment. Let's make sure we had adequate competition. Let's make sure our consumers don't have to pay too much for whatever it is our factories produce. Yada yada yada.

Do you know what we want? We want it all, without any of the consequences of having it, and, you know, not having to work too hard for it would be nice too. Preferably, any work would be on the margins, and not have to deal with the real problems.

In the Bloomberg article, a few paragraphs stood out:

Higher taxes and employee benefits boost U.S. manufacturing costs to 9 percent more than the average of the country's nine-largest trading partners, according to a Sept. 3 report by a team of JPMorgan Chase & Co. analysts.

For GE, higher U.S. expenses mean sending assembly of high-intensity discharge lamps to Budapest from a factory with 160 workers in Ravenna, Ohio.

"This particular product that was at Ravenna was made more cost competitively in Hungary," said Christopher Augustine, a spokesman for Fairfield, Connecticut-based GE.

There you have it. It is more expensive to produce in the US.

But is that really the issue? 9% more than the average of the country's nine-largest trading partners? After all, China, Mexico, South Korea, and Brazil are in the top 9. So are the Saudis. That would certainly counterbalance the Japanese, Canadians, British, and Germans, wouldn't it? I mean, the BLS in a recent study estimated hourly compensation costs were actually higher in Germany, Canada, and Japan than in the US. Hmm.

Needing to know the answer, I went to the Census Bureau, who calculates our trade data for whatever reason, to determine our trade with these countries. Just how bad is it, and with whom are we running deficits? And how much?

Here it is:

	<u>YTD (millions)</u>	
GLOBAL TOTAL	-\$ 398,448.5	Well, what make you of that? We run a trade deficit with 8 of our 9 largest trading partners. However, we run a trade surplus with Brazil, which has lower employee labor costs than the US. Then there are the curious trade deficits with the Japanese, Canadians, Germans, and British...all of which have higher hourly compensation costs.
Brazil	+\$ 9,579.8	
Canada	-\$ 18,411.5	
China	-\$ 177,788.6	It seems IF employee related costs were the ONLY reason why manufacturing has stagnated in the US, or why we run trade deficits with our major trading partners, we would run surpluses with those countries with higher worker costs than we have and deficits with those with lower employee related costs.
Germany	-\$ 37,080.2	
Japan	-\$ 43,262.1	
Korea, South	-\$ 13,210.1	
Mexico	-\$31,766.8	Since this isn't necessarily the case, as it doesn't seem to matter with whom we run a trade deficit, what are we talking about here?
Saudi Arabia	-\$17,377.7	
United Kingdom	-\$ 2,741.0	There are a couple of things: 1) our workers aren't as productive as workers in less expensive countries, and; 2) our work-

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ers aren't as cheap as workers in more expensive countries are productive. So, while we like to argue the US is at a disadvantage because of employee related costs, the numbers aren't quite as clear. It seems worker productivity also plays a part in the equation. After all, IF more expensive countries can run large trade surpluses with the US, well, you can't blame it ALL on trade barriers and the like.

But what makes workers in other countries more productive. Intuitively, it would have to be training and education. This makes sense; so it would seem students in more expensive countries would score higher than those in the US, right? For less expensive countries, it would seem their trade deficit would shrink the further their student test scores deviated, to the downside, from the US. Does this make sense? But how to test that?

Well, the OECD website has a page devoted to such a thing. Here is the URL: [click here](#). Fun stuff, sort of, but here are the primary parts:

<u>Country</u>	<u>Overall Reading</u>	<u>Mathematics</u>	<u>Science</u>	<u>Straight Average</u>
Brazil	412	386	405	401
Canada	524	527	529	527
China - Shanghai	556	600	575	577
Germany	497	513	520	510
Japan	520	529	539	529
Korea, South	539	546	538	541
Mexico	425	419	416	420
United Kingdom	494	492	514	500
United States	500	487	502	496

If you didn't follow the link, these are the 2009 Program for International Student Assessment (PISA) results. The 2012 numbers aren't available.

So, what do you see? Obviously, Saudi Arabia isn't in the table, as it apparently didn't participate. However, what else is there? Did you notice how the United States per-

formed more poorly than 6 of the remaining 8? And that it is currently running a trade deficit with all 6 of them. Further, the US has a trade SURPLUS with the poorest performer on the list, Brazil. This, then, leaves Mexico. What is our conclusion there? It is pretty simply really: the Mexicans are cheaper than the Americans are productive. However, Mexico runs trade deficits with the Asian and European countries, and a surplus with Brazil. It would seem Asia and Europe is more productive than Mexico is cheap.

Oh the mind boggles! This all takes me back to the beginning and my stories.

The United States wants good paying production jobs to help absorb this growing segment of underemployed people. Not everyone can be an engineer, attorney, cardiologist, or architect, so there has to be a outlet for "everyone else" at a reasonable wage. Without it, you end up having the very few subsidizing the very many, and the seeds for societal discord take root.

If we truly want a vibrant manufacturing sector that employs a lot of people AND a trade surplus, we have to be willing to work for it AND stop messing around on the margins. There is no substitute in a developed economy for a well-trained, motivated workforce, period. Washington can give out tax breaks and set up various programs until it is blue in the face. Where the rubber meets the road, we, as a country, either need to be willing to work harder and focus on the basics, OR ultimately earn and produce less.

This isn't a terribly difficult concept, just the story about my daughter's breakfast this morning isn't all that

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complicated. Okay, yeah, I spotted her this morning because it was too late not to do so. However, she knows there won't be many more pleasant Friday morning repasts at the Crestline Bagel IF she isn't willing to earn some money to pay for them. Could I finance this habit, if it became one? Certainly, but why should I and what would I be teaching her by doing so.

Then there is underlying message in my casserole story: focusing on the basics, the core, will always produce better results than trying to finesse the margins. Noodles, meat, cheese, and sauce....why mess with it? Why in the world would you add cinnamon? What a dumb thing to do. By trying to tweak things, I ended up screwing up the entire entrée. I took it from pretty darn good to darn near inedible in one fell 1/4 teaspoon.

In the end, the article and my remembrances brought me to a simple conclusion: we can have all the jobs we want here in the United States, we just need the following things: 1) better training, and; 2) better work ethic, and; 3) leadership that gets to the core of the problem, as opposed to attacking the margins. If we can get those things, there is absolute no reason in the world why the United States can't out-produce every other country in the world.

Period.