

GDP is Going Up

by [Steve Brown](#)

You have certainly heard about the Royal Baby born in Britain recently, who could become the King of England 60Ys or so from now. The question is, do you really care and more important, do the Brits care? After all, the monarchy no longer has any power to rule the country and it costs a bundle to keep up all those castles. The Brits ??for the most part (about 80%) do approve of the monarchy, saying it instills a sense of British identity and pride. That's nice, but being jaded colonialists, we think it is because the monarchy mainly brings tourists to England. Not to say tourists wouldn't come to England otherwise - there is the cuisine and the weather after all and many people like to visit castles. We just think it means more if there is a real queen and a few princes around. One could say the value of the monarchy is almost entirely intangible. But intangible does not mean there is no value. A British company that evaluates intangible assets said the Royal Wedding (which preceded the Royal Baby) boosted the economy by around \$165mm.

We are all hearing a bit more about valuing intangibles in the US as the Bureau of Economics changes the way it measures gross domestic product (GDP). As such, the numbers going forward have been adjusted and also revised all the way back to 1929, the first year GDP was measured. The net result is that GDP gets a 1x boost of 2.7%. Capturing such things as intellectual property like music, art and books as long term assets helps, as does the reclassification of research and development into a category of investment much like building a factory.

In the past, R&D has been treated like an expense, like paper for the copier or a piece of furniture for the office. This point of view may have worked for much of the 20th century when the economy was primarily based on the production of goods, but not now. These days, most efficiencies in business are related to technology and ideas, most of which come from R&D.

Valuation can be tricky. Consider the value or worth of a good idea. How do you depreciate an idea? Federal Reserve Chairman Ben Bernanke emphasized the necessity of the adjustment to GDP, saying "We will be more likely to promote innovative activity if we can measure it more effectively..." Measuring activity is critical and economists have talked about the value of innovation since the early 1900s. Unfortunately, accounting has lagged behind.

The US economy in particular is heavily weighted towards intangibles including designs, trademarks, patents and processes. Not all forms of intangible investment will become a part of the GDP number though, as excluded items include things like worker training and brand recognition development (just no methodology for measuring them yet).

In the end, the new measures are far from perfect, but are hopefully a better gauge of the economy as a whole and its growth. Since banks view GDP as the baseline percentage for loan growth and opportunity this is important. This should assist everyone in defining their priorities, understanding where to market more and hopefully lead to new customer opportunities.

BANK NEWS

M&A

Blue Hills Bank (\$1.2B, MA) will acquire a 3 branch division of Sovereign known as Nantucket Bank for an undisclosed sum. Sovereign is a sub of Banco Santander.

M&A

First National Bank of Scotia (\$405mm, NY) will acquire insurance agency The Scautub Agency for an undisclosed sum. Scautub offers auto, home and business insurance.

Joint Venture

SunTrust Banks (\$168B, GA) will finance up to \$5B of commercial real estate loans (CRE) originated and managed by MetLife Real Estate Investors. MetLife had \$43B in CRE mortgages outstanding in 2012.

ATM Upgrades

A CNBC report indicates NCR says it has installed about 350 Interactive Tellers at financial institutions across the country and expects the technology will see widespread adoption in the next 12 months (BoFA is rolling it out nationwide). Interactive Teller ATMs allow users to talk on- demand to remote tellers on video monitors, have tellers control machine screens, cash checks to the penny, disburse bills in any denomination, extend service hours, credit deposits faster and other options.

Weak PIN Security

Data Genetics research finds the top 5 ATM pin numbers used in order are 1234 (used 10.7% of the time), 1111 (6.0%), 0000 (1.9%), 1212 (1.2%) and 7777 (0.8%).

Swipe Fees

In a blow to banks, a judge ruled the Fed was not allowed to consider certain information under Dodd Frank when it set the cap on debit transaction fees at 21 cents. The decision forces regulators to revisit the rule & reduce it. Recall merchants used to pay banks 44 cents per transaction.

Divestitures

A survey by Ernst & Young of large banks finds 74% of US banks surveyed say they are exiting businesses in some geographical areas vs. 50% 1Y prior. Risk and regulatory pressure were the primary reasons cited.

Mobile

Research by the Fed and BBVA finds 87% of US adults have regular access to a mobile phone and 85% of mobile banking users have checked account balances in the past year.

Housing

CoreLogic finds home prices have risen 12% nationwide from 1Y ago (w/the fastest growing markets +20%).

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