

Stretching for Answers

by [Steve Brown](#)

The rubber band was patented in 1845 in England, but rubber has been in use at least since 1600 BC in Ancient Mesoamerica which included societies like the Aztecs and the Maya. They used rubber for everything from sandals to

balls and they even had rubber bands. While cheaper synthetic rubber has replaced tree-produced rubber in most products, rubber bands are still primarily manufactured with real rubber because there is far less elasticity in synthetics. To test for authenticity, reach into your desk drawer, pull out a big fat rubber band and shoot it at the back of your CFO likely hard at work pouring over month-end spreadsheets (please don't really do this). Listen for that nice elastic pop and the resulting cry of pain and you will know if you have a real all-natural rubber band or a cheap substitute (which probably disintegrated in your hand).

Speaking of elasticity, consider the economic numbers of late. What is the story with all the revisions of numbers like GDP and employment, numbers which bear quite a bit of weight with important folks like the Fed? One day the data shows one thing, and later they stretch and snap the opposite direction as revisions are made. To understand this better, we are going to take a look at how these numbers are compiled and revised to see if we can make a bit more sense of it for you. Today we will tackle GDP, tomorrow employment.

GDP is the total output of goods and services produced by labor and property in the US and this information is compiled and reported by the Bureau of Economic Analysis (BEA). The BEA divides GDP into four sectors of the economy - consumer purchases (Real Personal Consumption Expenditures), business investment (Real Nonresidential Fixed Investment), government spending (federal, state and local) and net exports. Exports add to GDP, imports subtract from it. In their reports, the BEA notes which sectors impacted the number for better or for worse.

GDP numbers are revised as information becomes more complete and the BEA has a standard schedule of releases. The process begins with an advanced estimate about a month after quarter end, then a second and third estimate. Previous quarters are revised beyond that schedule as well.

Using Q1 2013 as an example, let's follow the revisions. The advance estimate for Q1 GDP came out on April 26 and showed an annualized increase of 2.5%. This was a significant increase over the 0.4% growth rate reported in Q4 2012. However, the April 26 number was not the final measurement and indeed the BEA even cautions: "the first-quarter advance estimate ... is based on source data that are incomplete and subject to further revision..." The second estimate was released on May 30 (revised to 2.4%) and the third on June 26 (revised to 1.8%). On July 31, Q1 was once again revised, this time dropping to 1.1% (plus Q4 was revised down to 0.1%). All-in-all, the Q1 number has moved from a high of 2.5% to less than 50% of that level after the latest revision to only 1.1%.

Now let's roll forward to Q2, where the advance estimate for Q2 was a better than expected 1.7%. Now that you know further revisions are coming, how much can you really believe that number and how do you forecast organic loan origination?

Know that there is typically a change of around 0.6% between the advance estimate and the third estimate that comes out two months later. The revisions of late do seem a bit more volatile, but should bankers be concerned? Mostly we say it makes sense to observe the trends and plan for a variety of outcomes to protect your bank. We hope you have enjoyed this snappy discussion today, as we bounce over to take a close look at employment tomorrow.

BANK NEWS

Closures (20 YTD)

Regulators closed Community South Bank (\$387mm, TN) and sold it to CB&S Bank (\$1.3B, AL). CB&S gets 15 branches, all deposits and about 32% of the assets. Regulators also closed another Capitol Bancorp (\$1.6B, MI) subsidiary, Sunrise Bank of Arizona (\$202mm, AZ) and sold it to First Fidelity Bank (\$1.2B, OK). First Fidelity gets 6 branches, all deposits and essentially all of the assets.

M&A

Independent Bank (\$1.8B, TX) will buy Live Oak State Bank (\$124mm, TX) for \$20mm (50% cash and 50% stock).

M&A Terminated

Heritage Bank USA (\$978mm, KY) and Heritage and Sumner Bank & Trust of Gallatin (\$184mm, TN) have agreed to terminate their merger agreement, due to Sumner's failure to meet a certain performance requirement under the merger agreement.

Huge Change

UPS (the 4th largest employer in the country) said effective Jan. 1 it will no longer offer health benefits to working spouses of its employees eligible for insurance with their own employer. UPS said its healthcare costs are expected to rise 60% (to 11.25% in 2014 vs. the usual 7.00%) as the full impact of the Affordable Care Act is felt.

Customers

Research by FindABetterBank indicates 52% of people still search for a new bank within 5 miles of location (home or office). The rest will search 10 miles (26%), 25 miles (15%) or as far as 50 miles (7%).

Mobile vs. PC

Research finds mobile internet usage will overtake desktop internet usage in the next 1Y.

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