

A Herculean Effort to Understand Employment

by [Steve Brown](#)

Yesterday we explored the measurement of GDP, as we delved into this key economic measure, its volatility and potential impact on you as a community banker. Today, we move on to another important barometer of the economy, the many-headed hydra of Employment. If you recall the Greek mythological character Hydra, she was a serpent-like water creature who served as the guardian of the underworld. It was one of the labors of Hercules to slay her, which was no easy task because each time a head was cut off, two more immediately grew back. Ancient Greek poets described more heads than paintings on Greek vases indicated, but then again there is only so much room to paint on a vase.

Employment is one of the most widely watched indications of strength or weakness in the economy and we judge this primarily using the monthly increase in total non-farm payrolls and the unemployment rate. These numbers are released by the Bureau of Labor Statistics (BLS) on the first Friday of each new month and represent the previous month's activity. This news often prompts significant movement in market interest rates if it's found to be better or worse than expected.

For non-farm payrolls, the BLS takes information from the Household Survey conducted by the Bureau of Census. The survey provides information on employment of the US population and classifies it by age, sex and other characteristics. The survey of Current Employment Statistics looks at about 150,000 work sites, both public and private, to provide industry information on hours and earnings.

Then there is the misleading unemployment rate. The rate is the number of unemployed as a percentage of the total civilian labor force. If the size of the civilian labor force falls and the number of unemployed falls a bit more, then the unemployment rate drops (but not really due to strength). Looking at the participation levels of the US labor force in the 1990s, a rate over 70% was the norm. Today, participation rates are just over 63%, meaning a smaller percentage of adults are working. It's interesting to note that the rate has continued to drop post- recession and is at a lower level now than it was in 2008 or 2009.

For employment, there are other indicators as well, such as weekly jobless claims (both initial and continuing). Then there is the ADP Employment Change, which shows jobs growth in the private sector (have been stronger than employment as a whole as government payrolls have dropped).

In the most recent July employment report, there was an increase of 162K jobs, fewer than the expected 185K. If you lop off a head of the hydra and take a closer look, we find that 65% of those jobs were part-time, plus more than 50% were low paying positions at retailers and restaurants. This year, low paying jobs have provided 61% of the nation's job growth although those industries make up only 39% of overall US jobs. Meanwhile, mid-paying industries have only contributed 22% of this year's jobs gain. Here again, chop another head off the hydra and you find that the previous two month's jobs increases were revised downward as well.

What should bankers do with this plethora of information on employment? Our advice is not to dwell on the volatility, but rather take note of the trends and business conditions in your business footprint.

Then look for opportunity, maintain your level of great customer service and carry on in the herculean effort that is banking these days. By the way - yes, that's a bird on his head.

BANK NEWS

M&A

BATS Global Markets and Direct Edge will merge, creating the 2nd largest US stock exchange operator by volume (behind NYSE and ahead of Nasdaq) securities exchange. Terms were not disclosed.

Settlement

EverBank (\$18.4B, FL) will pay \$43mm to settle issues around improper foreclosure practices with the OCC. The first amount of \$37mm will be paid out to more than 32k mortgage borrowers whose homes were in any stage of foreclosure in 2009 and 2010. The second amount of \$6.3mm will go to nonprofit entities that support affordable housing or foreclosure prevention.

Competition

PayPal has reached an agreement with payment processor TSYS that will allow people to use PayPal at brick and mortar stores (where Discover is accepted). PayPal reached an agreement in Aug of last year with Discover to use its technology infrastructure.

Payday Crackdown

The CFPB is looking closely at payday lending due to the high rates charged and increased volume. Payday loans (short-term, small loans) jumped to nearly \$19B in 2012, up 10% from 2011.

Layoffs

A slowdown in mortgage origination has pushed Wells Fargo to announce 3,200 layoffs and JPMorgan to announce 15,000. The MBA estimates refinancing activity will drop 22% this year given higher interest rates.

Hiring

Wells Fargo said it will hire about 5,500 people nationwide to support growth in its brokerage, private banking and retirement business lines.

Dismissed

A federal judge has dismissed Bank of America's \$1.7B lawsuit against the FDIC. The suit is related to investor losses due to mortgage fraud at Taylor, Bean & Whitaker Mortgage. The judge said there weren't enough assets to make any payments on general creditor claims.

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