# Peering Into The Crystal Ball Of Forecasting

by Steve Brown

We've been reviewing some of the news that occupied imaginations last year, and now with the benefit of hindsight, we can laugh at the expense of these hapless predictors. How many of us have quipped, "If I did my job as inaccurately as the weatherman, I'd be selling pencils on the street corner?" Really, we should have a bit of sympathy for weather reporters, economists (and the like), whom by nature of their jobs must prognosticate on what they think will happen in the future. Some of our favorite predictions from last year: life will be found on Mars, the hurricane season would be extremely active (in reality there were only 2 in Sep, far below normal) and that Pope Francis would be a traditional pope.

Perhaps one of the saddest examples of prediction is the poor Bureau of Labor Statistics trying to estimate employment change. They not only have the job of reporting the rate and number of jobs the US economy will add, but also break down the change in employment by occupational groups and make a 10Y prediction. Currently, they predict the next decade will bring substantial growth in Healthcare jobs, personal care, service, and computer and mathematical occupations.

So how did they do over the last 10Ys? The largest growth in jobs in the US from 2002 to 2012 was a 56% increase in mining - the BLS had predicted a drop of 12%. There were also large divergences in Manufacturing, Construction and IT (all areas the BLS predicted growth that instead saw large contractions). Of course, those predictions were made in 2002, long before the financial crisis and resulting evaporation of the construction and manufacturing industry--it may seem making long term predictions of any sort are a losing battle.

That takes us to short term predictions about employment. If we take a look back over 2013 at the monthly employment data, we find that the survey of top economists didn't do a great job there either. Looking at employment data released each month, we find the survey underestimated the number of jobs 7 times out of 12--wrong 58% of the time. Further, the margin of error in either direction was more than 10% in 7 of 12 months. Of note, the largest divergence was in March when the survey expected an increase of 190K jobs and the real number came in at only 80K. If this sounds pathetic, you may wonder about the headline rate. Here the survey got that right only a single month in 2013 (Oct), so it was wrong a whopping 92% of the time.

What does it all mean for bankers? To be sure, employment numbers are an important barometer of the direction of the economy, interest rates and eventually loan growth. The problem is that in spite of all the chatter on the financial networks, flipping a coin will likely work better at predicting the ultimate outcome of any data point. It's also important to remember that employment is a lagging indicator, as companies tend to hire once business has already picked up.

This is also a primary reason that the Fed uses employment as one of its primary measures. It relies on indicators that are less subject to short term fluctuations but are indicative of a more sustainable trend. So, to keep your finger on the pulse of the national economy, pay attention first to your own market--plan accordingly and have fun with all economic releases as you flip a coin to see where they will end up.

# BANK NEWS

**Leverage**

In a good news twist for banks, Basel officials formally agreed to ease the existing leverage ratio requirement. The ratio is intended to set a minimum standard of capital banks must hold as a percentage of assets to limit reliance on debt issuance.

**Banking**

As non-banks proliferate, it might make sense for bankers to remind customers that only a bank is a bank. Customers are slowly waking up to the fact that retailers and other non-banks seeking their banking business do not have to follow stiff regulations bankers have to follow. That is good and while there is no way to determine whether stiffer bank regulations and requirements would have prevented the theft of 110mm accounts at Target and another 1mm or so at Neiman Marcus, we all know if 33% of American consumers had their data stolen from a bank the regulators would have been the first ones at the door to find out.

**Customer Preferences**

The ABA reports consumers prefer to conduct banking business in the following ways: online (39%), visiting a branch (18%), ATMs (11%), mobile (8%), mail (7%), telephone (7%) and don't know (11%).

**Gift Cards**

CEB TowerGroup projects gift card sales reached $118B in 2013, an 8% increase YOY.

**Getting Out**

JPMorgan Chase said it plans to explore options to sell its prepaid card business.

**Staying Home**

Wells Fargo has set up an inside team of about 400 loan underwriters according to Bloomberg that will originate loans that will not qualify for the CFPB safe harbor. These loans will reportedly equal about 5% of the bank's total production and would need to be held on the bank's books (i.e. could not be sold to FNMA or FHLMC). Wells is reportedly taking the step to offer more options to high net worth customers seeking loans that have interest only and other features that would not otherwise fit CFPB requirements.

**Mobile Bill Pay**

A Fiserv study finds mobile bill payment usage reached 16mm in 2013 vs. 8mm in 2012. The increase was driven by a surge in the number of people paying bills using smartphones and tablets.