J. Michael Locke
Musings

#250: Musing
<u>February 3, 2024</u>

The economy keeps humming even with higher interest rates. Last week's jobs report showed lots of new hiring and wages increased. Until wage increases cool, don't look for a cut in rates. From Baird: *"BLS wage inflation was hot and accelerated. Hourly earnings increased 4.5% yoy. Hourly earnings for production and nonsupervisory employees increased 4.8% yoy to $29.66."* Until we get more workers into the labor pool, it will be hard to stop this type of wage inflation (more work visas to deserving immigrant families would be a good start).

We are in the middle of earnings season where publicly-traded companies must disclose their results. Amazing strength in big tech led by Facebook/Meta. The growth of these companies at their size is really unbelievable.

A real interesting earnings report window was regional banks which came in soft. A lot of the loans by these smaller, regional banks are to owners of commercial office buildings. The rewriting of work structures with hybrid/remote rising has put real stress on landlords as tenants downsize or don't renew. This market operates on a lag because most leases are multi-year so it takes a while to adjust but that is now happening. The "rent-rolls" are plummeting and so are the values of buildings which also have to refinance their debt periodically and now face much higher rates. The equity is being wiped out with some buildings trading at 50% or so of previous value. As a result, many regional banks are not getting paid back on their loans. Interestingly, the large banks are not as exposed. *"The default risk is worse for regional banks, where CRE (commercial real estate loans) make up nearly 29% of all assets, versus 6.5% at big national banks."* (Morning Brew).

Remote work has also introduced "over employment" where people are working multiple jobs (usually hidden from their employer). The loss of trust (both ways) between employers and employees is really troubling. Great article in Business Insider (thanks Kate McNamara) *"What we have now is a vicious cycle of broken promises — companies cutting back on benefits and job security, workers cutting back on hours and effort. The result is a workplace that none of us wants: one where no one feels they owe anyone anything."* *loyalty-employee-employer-job-security-broken*

Another shift in the workplace is the process of B2B selling. With all of the information now online, buyers do their research on their own and even go to peers to discuss vendors before they really engage. The result is a need to migrate money and resources from outside selling to marketing. Here is how one talented executive put it to me "it has been my experience that buyer behavior has shifted over the last 5-10 years. Buyers prefer to engage digitally to gain knowledge before personally meeting. This resulted in a change for the field sales representative to be less of a "hunter" and more of a "closer" with enhanced technical knowledge." The traditional B2B relationship guy is starting to look like Mad Men and the solution engineers are ruling the day.

This week's government incompetence example is the Covid program called the Employee Retention Credit. According to the WSJ, it was initially estimated to cost $55 billion, but the final price tag may be upward of $470 billion. The continued saga around the new FAFSA must also be mentioned. Families are now not going to receive their financial aid "packages" from the federal government until mid-April so tough for them to make a school decision by the standard May 1.

One I really got wrong was football. I was predicting its demise as our local junior football league went defunct while everyone drove to soccer practice. Many parents were concerned about the health effects of football (although the concussion risk in soccer is under appreciated). I even looked at investing in a minor league soccer team which fortunately didn't pan out. Football couldn't be stronger at the collegiate and professional level. Viewership is off the charts for NFL games (even without Swifties) and our two girls (like many others) are attending colleges with major programs and discussing game days and rankings.

Not sure why anyone gets a Brazilian butt lift, but if you do, do it in the US. 93 U.S. citizens have died as a result of cosmetic surgery in the Dominican Republic from 2009 to 2022, according to a report from the Centers for Disease Control and Prevention.

There is a fundamental flaw in nonprofit governance IMO. The standard model is to have a large board to facilitate fundraising. In many cases, this is viewed as the basic job of the board. The board members don't have money at stake like a business and are doing it more as a "give back" and are not inclined to inspect or get involved operationally. This leaves the chief executive "unmanaged." If you have a good one, things will be fine but if you have a bad one — look out. For example, I am amazed at the universities which have been mismanaged yet there is no accountability. The Presidents often retire with big pensions or move to the next job. They are rarely fired. I encourage readers to treat a nonprofit board just like a business board and really dig in.

Finally, let's talk about Zyn. Many don't even know what it is. It's the leading brand of nicotine pouches in the US. Because of their potency and ability to be hidden (tucked in the upper lip), these pouches have skyrocketed in popularity: In the first three months of 2022, more than 808 million units were sold in the US, compared to 126.1 million during a three-month span in 2019. The issue is teen use as Zyn's rise has been supercharged by "Zynfluencers" who post comedy sketches and have developed memeable slang terms for the pouches like "upper decky" and "lip pillows." Watch for regulation on this one.

Jml