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September 2011
Issue IV

Labor Daze

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Long before “American Idol”, or “Keeping Up With the Kardashians”, actually a few decades ahead of the onslaught of reality TV shows that dominate the dial today, there existed a variety show (if that concept is foreign, please consult your parents or grandparents) named, “Sha Na Na”.

Eponymously entitled for its headlining 1950’s doo-wop group, each episode from 1977-1981, closed with a thumping rendition of The Silhouettes original 1957 smash hit, “Get a Job.” And last week, President Obama in a televised joint Congressional address, laid out how he’d like to assist many Americans in doing the same.

This $447 billion proposal, dubbed the American Jobs Act[1], is a bill that emphasizes tax credits for small businesses, payroll tax cuts for working individuals and increased spending on infrastructure projects such as highway, transit, rail and aviation system upgrades. The President was impassioned in his insistence that the bill be met with swift Congressional approval and promised that specificity on its funding is forthcoming.

The US jobless rate registered 9.1% for the month of August and has dropped below 9% only twice since May of 2009[2], prompting a legislative laser-focus to cauterize the chasm between the employable and the employed. Despite multiple monetary stimulus programs, record corporate profitability and unprecedented productivity potential, the American job market is dazed and confused. Presumably President Obama strategized with employers and regulators to conceptualize catalysts for the job market and ultimately the economy and so we at Kavar Capital decided to do the same.

Our firm has the good fortune to work with several business owners across multiple industries and locales, and last week we distributed a set of inquiries to ascertain their assessment of the labor market, focusing on the following: current vs. historical headcount at their company; salary and other expense trends at their company and; the regulatory intensity within their industry. As promised, the identities of the informants will remain intimate, but their insights are instructive.

Some pointed proclamations:

- 50% of the respondents are experiencing growth in their labor force (headcount) – led by the healthcare, transportation and service industries;

  Of that 50%:

  - ◊ Headcount growth is attributable primarily to rising demand for their specific product(s) and forays into new lines of business within their industry;
  - ◊ Most are having a difficult time finding qualified employees;

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- 66% of respondents indicated that compensation as a % of revenue is stable or rising, including industries where headcount is not increasing (banking, real estate);
- 66% of respondents indicated that their average employee has received bonus income in the last 3-5 years;
- 100% of the respondents provide healthcare benefits to their employees, and all have seen premiums rise over the last 3 years;
- 100% of the respondents provide retirement savings benefits to their employees;
- 50% of the respondents are undergoing or anticipating an increase in company capital expenditures – primarily in technology;
- 66% of respondents are dealing with an elevated presence of government regulation in their industry.

Some personal perceptions:

- The directional change in the unemployment rate, falling from a high of 10.1% in October of 2009 to the current level of 9.1%[3], is attributable to pockets of strength in specific industries such as the healthcare, technology and service fields, as opposed to broad-based economic vibrancy;
- There is a negative correlation between additional hiring and regulatory intensity within specific industries such as real estate and banking;
- The smallest employers in our survey have reduced headcount the most on a percentage basis. These same employers were those that indicated the highest increase in regulatory intensity;
- Despite the rising cost of employment, (via compensation and benefits), capital expenditures are generally expected to increase, presumably as future revenues outstrip expenses and longer-term time frames are established for calculating the prospective return on this capital allocation.

Recommendations/Conclusions:

It stands to reason that the headline beneficiary of the proposed jobs legislation is the small business, for therein pumps the life-blood of American industry. Fascinatingly, small companies (those with 500 employees or fewer) comprise over 99% of all US companies, employ more than 50% of all private sector employees and have accounted for 64% of net new jobs over the past 15 years[4]. Clearly the embers to be stoked in a fizzling jobs fire would be those of such organizations.

Based upon our survey, we would advocate for a reasonable reduction of regulation, as the allocation of time and capital to address industry autocrats is, at best, an abstraction. Understand, this is not a lobby for lawlessness, but a plea for plainness and a cry for consistency, and here is why: I believe that all sized companies, but particularly small ones, are dealing with an emergent challenge – the contraction of the length of the business cycle, exacerbated by the recovery from the recent recession.

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Like all elements in our society, corporate shelf-lives shorten as attention is attracted to newer, better and faster alternatives. Companies must acknowledge such and adapt, or they will expire. Competitive threats have never been greater and the world never flatter, intensifying the need for agility in application and a bond with bureaucrats in order to advance the greater good. Entities private and public are guilty of short-sightedness and legislative leanings are an unfortunate, but unshakable, landmine of the landscape. In order to promote prosperity, conformity with convention is critical, provided it is progressive and conducive to creating an adequate return on capital.

The American Jobs Act will do well if it promotes an expansion of opportunities that stretch prospective sources of demand – increase international competitiveness/exposure. This has the potential to elevate the expediency of recovery on any advancement of resources to the companies most in need, while ultimately necessitating additional units of labor (jobs). In theory, this broader reach of American industry could offset in volume any inevitable reduction in margin from the aforementioned business cycle contraction. This partnering with the powers-that-be is most critical for the industries not experiencing organic growth, courtesy of demographic or socio-economic undercurrents, as per our survey.

While "Sha Na Na" front man, Bowser, had it right, it is sadly not so simple. The task of jump-starting the job market is arduous and the burden is not capable of being borne by a single bill. However, every inflection point needs an incitation and perhaps this legislation will, in the words of former President, Calvin Coolidge, remind us all that, "…the chief business of the American people, is business." We look forward to the debates on the provisions and hope the needs identified from our client survey will be readily addressed.

[1] http://www.whitehouse.gov/the-press-office/2011/09/08/fact-sheet-american-jobs-act

[2] Source: Bloomberg Market Data

[3] Source: Bloomberg Market Data

[4] http://www.sba.gov/advocacy/7495/8420

IMPORTANT DISCLOSURES:

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