



Bauerle's Bank Notes

Tincture of Time

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At age 29, I contracted "pink eye." Not knowing why my eye looked abnormal, I anxiously called my pathologist father-in-law. He recommended an internist, whom I consulted. Dr. Levine examined me and concluded, "I prescribe tincture of time." I said, "What is that?" He replied, "Give it time; likely the pink eye will go away."

The Federal Reserve Board of Governors has applied a similar prescription to the U.S. economy since the 2008 banking crisis, according to Don Rissmiller, the featured speaker at WesBanco's annual trust and wealth management conference two weeks ago. The Federal Funds Effective Rate has remained at zero percent since 2010, longer than in any other post-recession period. Commenting on this ZIRP ("zero interest rate policy"), Rissmiller said the Fed has "made up in 'time' what it could not do in 'magnitude'." Or as he said about the flat-line graph depicting changes (none) in the Fed Funds rate, "If this were a medical chart, the patient would look dead."

"If things are so good, why do we feel so bad?" asked a member of the audience. The current economic expansion, Rissmiller answered, is the slowest-paced recovery ever. It stands also to be the longest in duration, he added hopefully.

For bankers, the slow crawl economic expansion has presented challenges not seen in our working lifetime: historically low loan demand, bone-crushing net interest margin and unprecedented competition from both peer and gray market providers, like business development corporations and peer-to-peer lenders. For bankers in the near Midwest (from Altoona to Chicago) there exist, however, a few bright spots, an assessment that Rissmiller's presentation validated. These include:

- Energy Self-Reliance. Shale gas development has reduced U.S. dependency on foreign oil and conferred competitive advantage on U.S. manufacturers relative to European and Asian competition. Unemployment data for Southwestern Pennsylvania reported last week contained a fascinating turn of events, overlooked by Pittsburgh media outlets. Chronically depressed Greene County, the Southwestern-most-county in Pennsylvania tallied an unemployment rate of 4.2%, the lowest of any county in the region. Greene and Washington counties are the

epicenter of Western Pennsylvania shale gas drilling. The Washington, Pennsylvania, [Observer-Reporter](#) did not miss the significance of the news. It headlined the story, "[Jobless Rates Plummet in Washington, Greene.](#)" In the 35 years I have lived in Pittsburgh, Greene County's unemployment rate has *never* been lower than the rate for Allegheny County, which includes Pittsburgh.

- Smart Manufacturing. Economist Rissmiller identified this trend as the second of eight in his list of "Candidates for the Next Source of Productivity." He noted, "manufacturing that was outsourced is likely not the manufacturing that will come back." Manufacturing today, he said, will go the way of agriculture 50 years ago: a comparatively small number of employed persons producing more and better goods than the armies of people it took to get the job done in an earlier era. Last Tuesday's [Pittsburgh Post-Gazette](#) reported a \$530 million federal initiative to support smart manufacturing.

The president's orders call for a \$300 million investment in manufacturing equipment and materials and the establishment of a \$100 million apprenticeship grant competition.

Meanwhile, \$130 million, which has to be matched with non-federal dollars, will be distributed over 10 years to Manufacturing Extension Partnerships in Colorado, Connecticut, Indiana, Michigan, New Hampshire, North Carolina, Oregon, Tennessee, Texas and Virginia. The aim is to help small manufacturers develop new technologies and bring new products to market. [United Steelworkers Union President Leo] Gerard said the goal is to expand those centers to more places across the country after the pilot programs prove their worth.

"There's going to be a lot of competition [for the centers], but I think Pittsburgh would be a pretty cool place. It's got business, laboratories, the financial community and academia all working together on a number of projects already," he said.

\$530 million is a drop in the bucket. The important point is that a new manufacturing economy *is* emerging, and will require working capital and capital equipment financing on a large scale, that being the budding opportunity for bankers and other financial intermediaries.

- Big Data and the Service Economy. Rissmiller's thesis is that the greatest economic lift will come in the services sector of the economy as technology continues to reshape all manner of economic activity. For bankers, this output will need to be funded and supported by creative solutions that are developed around new property and associated rights as they are created, distributed and redistributed.

Tincture of time is a frustrating prescription for the Type A personalities that lead most economic enterprises, and for bankers and allied professionals whose livelihood depends on economic change and the need to finance it. "Muddling through" is the other phrase economist Rissmiller applied to the current environment. For those who persevere, however, rewards will follow. The challenge, as in life, is to find courage to keep going in the face of a chart whose trend line is a flat.

