Basis Points

Weekly Market Commentary

Basis Points – August 4, 2022

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Above the Fold

How Ukrainian Refugees Are Impacting Europe’s Economy

While the Russian invasion of Ukraine has had very clear impacts on the local economies, as well as disrupting energy and food supplies such as natural gas and wheat worldwide, the influence of refugees on the economies they become a part of is less discussed. Unfortunately, this phenomenon is not a new one, and economists are already familiar with a few different impacts and trends that need to be considered when gauging the effect of refugees on an area’s economy.

One of the first factors taken into consideration is how many refugees are of working age and ability. When it comes to the current population of Ukrainian refugees reaching Europe, most of them (the current suggestion is around 80%) will be women and children, as Ukraine declared martial law shortly after the invasion began, which required all men between age 18 and 60 to remain in the country. While an extended war-time period will mean that more men of working age will gradually leave Ukraine, in the short term, Europe can expect many refugees to be women of working age that may be looking after one or more children.

This reality provides a few barriers to entry into the European workforce, as language barriers, childcare, and even cultural barriers can all impact how ready or able these refugees are to enter the workforce. Many will likely have to take on jobs that they may be overqualified for. Previous observations suggest that after two years, around 17% of working-age refugees are employed in their asylum country, with this number increasing but remaining under 50% even after five years.

When it comes to the current scenario facing Ukrainian refugees, it is difficult to determine just how easily or quickly they will fold into local workforces, but most models suggest that the European market can expect at least a gradual (and much-needed) increase in their labor force over the coming years.

Three Things

Equifax Admits to Sending Incorrect Scores to Lenders

Equifax announced that earlier this year a problem (most likely due to a coding issue) caused them to send many lenders incorrect credit scores for millions of U.S. consumers. Equifax has not identified the exact time this error occurred, but they did note that as many as 12% of all credit scores released from March 17 to April 6 may have been incorrect. In many cases, these were not small errors either, as some credit scores were off by 25 points or more, which could have serious consequences for borrowers. Equifax still has yet to comment on how consumers can determine if they were affected, or how they can rectify the problem for those who may have been issued inflated borrowing rates.

Companies Bet on “Lipstick Effect” and Increasingly Frugal Spending

In response to inflation and signs of changes in consumer spending, many companies are turning to a classic financial theory to guide their current product outlook. The “lipstick effect” refers to the idea that during an economic crisis (such as a recession) consumers will purchase more affordable “treats” while reeling in their spending on more extravagant purchases. This has led to companies like Unilever, and other providers of goods ranging from snacks to deodorant, changing packaging sizes and launching new product lines, to accommodate these changing consumer habits.

Uber Turns Cash Flow Positive, but …

For the first time in company history, Uber has reported a positive cash flow quarter, to the tune of $382 million. This is a much higher number than analysts were predicting (many estimates were around the $109 million range), and Uber’s share price closed up 19% on Tuesday, in response to this. While this is a positive sign for the company and its commitment to future profitability, it should be noted that Uber has frequently been criticized for their approach to calculating their profits, as they have a long list of exclusions that some feel skews the accuracy of the statistic. They also continue to lose money on a per-share basis.

In the Know

A Little History of Your Credit Score

While credit currently represents a significant benchmark of financial health for the American consumer, credit reporting in its current form is a rather modern idea, only really getting started around 200 years ago. Now the idea of debt is much older, with a nearly 5,000-year history, but during this time, credit was a much more personal affair, with lenders seeking personal recommendations and relying on hearsay to determine if a borrower would likely repay them. But, as the economy grew and business transactions became more frequent and more expansive, this informal system of credit was no longer viable. A more reliable and standardized system needed to be put in place.

The current credit system did not materialize immediately, and it took many iterations to arrive at the framework we see today. What began as a formal commercial credit reporting system for companies around 1864, would gradually shift toward collecting data on consumer borrowers. But this early period would be plagued with concerns about privacy as credit bureaus would look to collect information on creditors' social, political and even sexual lives. However, with legislation passed in 1970 to help protect consumer privacy, these credit bureaus would begin to more closely resemble the institutions we see today, as Equifax, Experian and TransUnion would quickly rise as the "big three" consumer credit bureaus that we still see dominate today.