The Monthly Itinerary
The ABA Foundation's Monthly Tour Through the Economy

April 2023

APRIL SUMMARY

Most of the economic news lately has been disappointing. Negative revisions to GDP suggest that the economy really never came out of recession last year, and the Federal Reserve of Atlanta's GDPNow forecast suggests that growth in the first quarter of 2023 was likely just 1 percent. With much of this growth because of arms shipments to Ukraine, this is nothing to write home to mom about.

That said, even though the overall economy is in a period of stagflation, there are some sectors that have been performing well. Based on data from Fidelity Investments, over the past year, equities for 15 of the 69 industries that were tracked were positive for the past 12 months. Of these 15, the hotels, restaurants and leisure sector, is one of the most important to the motorcoach industry. Equity values in this sector were up 4.31 percent over the past 12 months (as of April 6) reflecting strength in the travel and tourism industry.

This is reflected in our data on the motorcoach industry as well, with relative strength in the charter and tour components, as well as the scheduled services segment. This is being offset by a very weak commuter market, something that is a continuing vestige of the COVID-19 lockdowns and the shift toward working from home.

The resiliency in the travel sector is remarkable, particularly considering that inflation has been particularly high in most travel and tourism related industries. Airline fares are up 26.5 percent year over year, restaurant meal prices are up by 8.4 percent, hotel prices are up by 7.4 percent, and admissions to events are up by 5.9 percent. According to the Bureau of Labor Statistics, intercity transportation services (which includes transit and commuting) are actually down in real terms, with prices up by just 1.1 percent over the past year. This suggests two things: First, consumers are still spending on travel, and are likely doing this at the cost of other purchases. It is likely that travel will remain robust in spite of a weak economy. Second, while parts of the motorcoach industry remain depressed, there is good opportunity, particularly in high tourist destinations, for charters and tours.

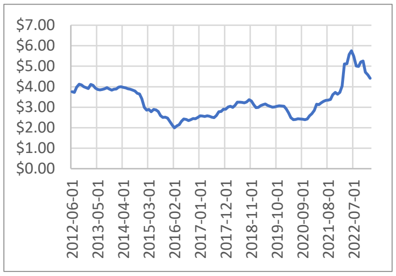
On the negative side, continued regulatory overreach, a depleted Strategic Petroleum Reserve, and recent cuts in production by OPEC will continue to keep oil prices – and particularly diesel prices – at record high levels. On top of this borrowing costs continue to increase, even though interest payments on investments are not growing at the same pace. This will continue to put pressure on profits despite strong demand.

Now, more than ever, the motorcoach industry is subject to the whims of the economic environment. Keeping abreast of key economic trends will be an important part of determining strategies to prosper in difficult economic times. The Monthly Itinerary reports on some of these key indicators. Please let us know if there are any other indicators that you believe are important to track going forward in 2023.

The Monthly Itinerary is designed to provide members of the ABA with an ongoing series of data and commentary on key economic and transportation statistics of importance to the motorcoach and motorcoach tourism industry. For more information or to comment on this report, please contact Melanie Hinton at mhinton@buses.org or 202-218-7220.

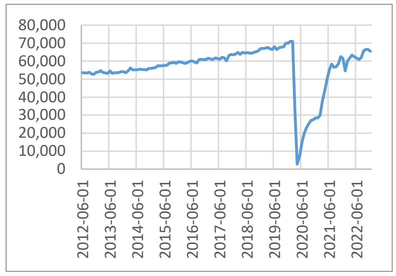
MARCH STATISTICS

National Diesel Prices



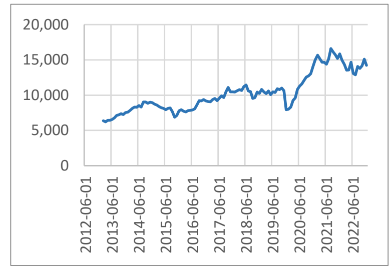
March-23: 4.21
Down 4.58 Percent

Domestic Enplanements



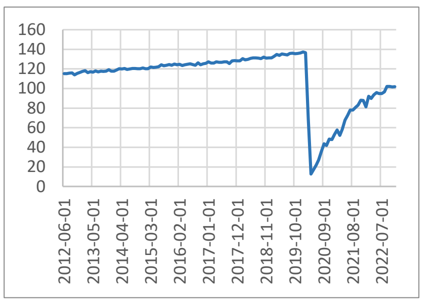
November-22: 65,537.00
Down 1.53 Percent

Dow Jones Transportation Index



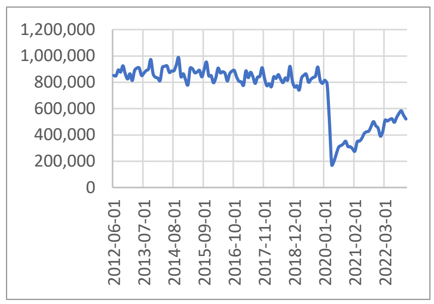
March-23: 14,220.45
Down 5.88 Percent

Transportation Services Index (Psgr)



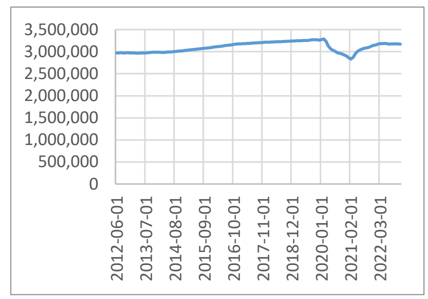
December-22: 101.90
Up 0.2 Percent

Transit Ridership



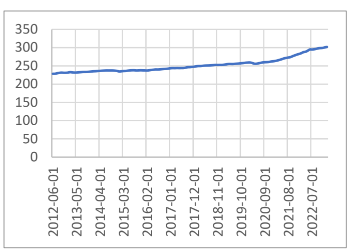
December-22: 520,286,000
Down 5.03 Percent

Highway Travel



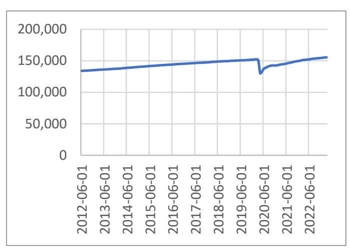
January-23: 14,220.45
Up 0.42 Percent

Consumer Price Index



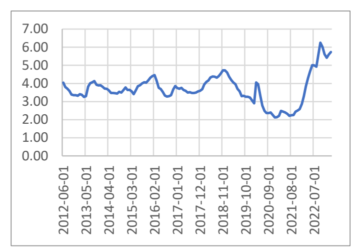
February-23: 301.65
Up 0.37 Percent

Employment



March-23: 155,569.0
Up 0.15 Percent

Corporate Loan Rate



March-23: 5.73
Up 2.14 Percent

APRIL ECONOMIC NEWS

- The recent banking crisis has led the Federal Reserve to reverse its policy of Quantitative Tightening (QT) and bring its balance sheet back to levels from last November. This burst of Quantitative Easing (QE) will likely spur inflation upward in the near term.

- Saudi Arabia and other OPEC+ members announced output cuts of around 1.16 million barrels per day, on top of earlier reductions in oil supply. These cuts bring the overall reduction in OPEC+ production to about 3.66 million bpd according to Reuters, equal to 3.7 percent of global demand. This will continue to put greater pressure on fuel costs.

- In fact, overall prices for diesel fuel were at about $4.60 per gallon in February and are expected to increase through the spring as crude oil prices rise back above $80 per barrel.

- The Bureau of Economic Analysis announced huge revisions in its GDP numbers for 2022. This put reported Real GDP growth at just 2.1 percent for 2022, a figure which is likely higher than actual due to underreporting of inflation.

- The Consumer Price Index rose by an annualized rate of 6 percent in February, suggesting that the Federal Reserve will need to continue its tightening stance for longer that many Wall Street pundits expect. Inflation in Canada was at 5.2 percent in February.

- Full-time employment jumped for the first time in a year, as the Bureau of Labor Statistics reported an increase of nearly 1.2 million full-time jobs in March, with overall employment up by 577,000. This is a positive sign and outpaced the overall growth in the labor force. Canadian employment was up by 35,000 in March, with the unemployment rate holding steady at 5 percent.

- Even though the Federal Reserve continues to raise interest rates, the yield on the benchmark 10-year Treasury note has remained negative and has fallen to just 3.3 percent. The yield curve has inverted to levels last experienced in 1980, during the deepest recession since the Great Depression.

APRIL COMMENTARY

Spring is historically a time of rebirth and renewal. In fact, all spring holidays, be they religious or secular tend to focus on the concept of rebirth. Economies, like forests, and fields and often even people, go through cycles of decay and renewal, in fact, these cycles are one of the most important parts of the capitalist system, and is something nearly every business person understands and accepts.

Economists have long discussed the cyclical nature of the economy, but no one was as eloquent about the business cycle than Austrian economist Joseph Schumpeter. When I was just a young sprog studying economics, my Masters dissertation professor was a former student of Schumpeter, and he drove the importance of the business cycle into my head. Most of the political economists that are in the media speak as if recessions are the worst possible thing. Over the past four Administrations, both conservative and liberal, the Federal Government has done all it can possibly do to try to ensure that recessions would not occur, or if they did, that they would somehow be brought to their knees by enhanced government spending.

This is a reasonable reaction for a politician. Nobody wants to see jobs lost, wages cut, and people lose their homes on their watch, but this intervention has disrupted the “creative destruction” that downturns bring to an economy. Schumpeter popularized this term in his treatise *Capitalism, Socialism and Democracy.* He said that creative destruction describes the "process of industrial mutation that continuously revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one.” I have heard other economists state that recessions free up resources from unproductive uses and make them available for more productive ones.

We see this all of the time in business. In the motorcoach industry, mid-city bus terminals were closed and sold for redevelopment into offices, homes and hotels, while underutilized spaces near highway intersections were developed as locations for the pick-up and drop-off of travelers. Tour companies have replaced large coaches with smaller ones, allowing them to operate more specialized programs for more discerning travelers, and companies have replaced expensive diesel engines with more cost-effective natural gas. All of these business decisions led to disruptions (or destruction), but over time they released resources that could be better utilized in the economy.

By stopping the forces of recession, politicians help to ensure that resources are wasted on companies that likely should no longer exist. Today, these so-called *zombie companies* represent as much as 25 percent of the American economy. Just think what the release and reutilization of 25 percent of the labor force and the capital assets of the economy can do, and how they could create a new economic spring.

As Schumpeter said, “Capitalism ... is by nature a form or method of economic change and not only never is but never can be stationary.” This is why recessions are a necessary part of the overall economic cycle, and something to not fear, but to take advantage of. The motorcoach industry has gone through its share of destruction following the government-imposed economic shutdown because of COVID-19. The coming recession will be one that helps free up resources from other parts of the economy that will allow the industry to continue to recover in the future.

The Monthly Itinerary produced by John Dunham & Associates and is provided as a service by the American Bus Association Foundation. It is not intended as investment advice. If you would like more information, or if you would like us to track additional indicators, please feel free to contact Melanie Hinton at mhinton@buses.org or 202-218-7220.