



## The Monthly Itinerary

### The ABA Foundation’s Monthly Tour Through the Economy

#### August 2022

### AUGUST SUMMARY

It now appears as if the US economy has been in a recession since the beginning of the year. The layman’s definition of recession is two quarters of negative GDP “growth”, and the 1.6 percent decline in the first quarter and a decrease of 0.9 percent in the second means that technically the US is in recession. While this is not a massive decline of the scale seen in 2008 or in the early 1980s, we can expect that this is just the beginning of an extended period of slow or negative growth.

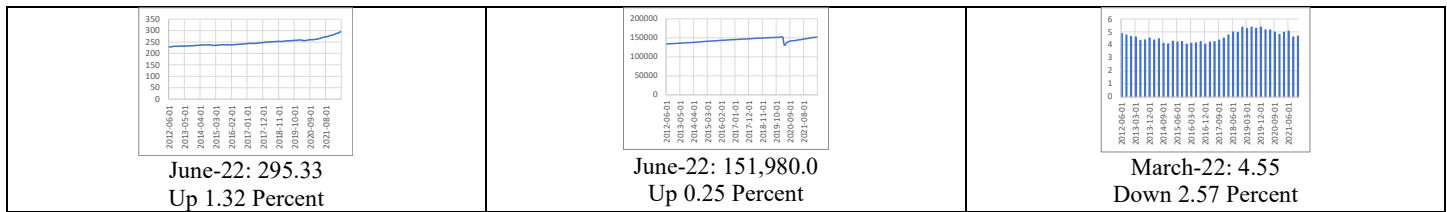
Negative GDP numbers are entirely due to the high levels of inflation that the US – as well as the world economy – is experiencing. On a nominal (or non-inflation adjusted basis) growth has been solid, but higher prices for rent, food, fuel, transportation, and services mean that even though the economy is growing in monetary terms, the amount of stuff being produced is falling.

The recession is likely to continue to be fueled by inflation, and even though unemployment claims have been increasing since mid-March, they are still well below the levels seen during even the slightest of recessionary periods. Therefore, many economists are suggesting that unemployment will remain modest even as the recession drags on. In effect, the labor force is falling at a faster rate than the economy, and workers will continue to be scarce.

With people still working, and since many are not returning to office environments (according to Kastle Systems, office use nationally was just 44 percent of pre-pandemic levels in June), off-site meetings and conventions have been on the rise. This should bode well for the charter, shuttle, and scheduled segments of the industry; however, it is becoming clear that the commuter segment of the motorcoach industry is in for a long slumber. And things could get even worse for this segment if some of the more urban cities and states go back to lockdowns and mask-wearing policies.

### AUGUST STATISTICS

<p style="text-align: center;"><b>National Diesel Prices</b></p> <p style="text-align: center;">July-22: 5.49 Down 4.66 Percent</p>	<p style="text-align: center;"><b>Domestic Enplanements</b></p> <p style="text-align: center;">February-22: 61,809.00 Up 3.8 Percent</p>	<p style="text-align: center;"><b>Dow Jones Transportation Index</b></p> <p style="text-align: center;">June-22: 13,454.35 Down 0.68 Percent</p>
<p style="text-align: center;"><b>Transportation Services Index (Psg)</b></p> <p style="text-align: center;">March-22: 92.20 Up 0.88 Percent</p>	<p style="text-align: center;"><b>Transit Ridership</b></p> <p style="text-align: center;">March-22: 509,829,000 Up 19.51 Percent</p>	<p style="text-align: center;"><b>Highway Travel</b></p> <p style="text-align: center;">May-22: 13,454.35 Up 0.11 Percent</p>
<p style="text-align: center;"><b>Consumer Price Index</b></p>	<p style="text-align: center;"><b>Employment</b></p>	<p style="text-align: center;"><b>Automobile Loan Rate</b></p>



## AUGUST ECONOMIC NEWS

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- According to the Bureau of Economic Analysis, the economy contracted for the second quarter in a row with GDP falling by 0.9 percent.
- While the price of regular gasoline is down by about 10.2 percent from mid-June highs, the price of diesel fuel has remained elevated, down by just 6 percent from its record high. This is mainly due to reduced production of lighter crude oils in the United States, which generate more diesel fuel when refined, than does crude produced in the Middle East.
- The Federal Reserve continues to talk up rate increases. In June, the Federal Reserve raised the Federal Funds target rate by 75 basis points to 1.75 percent, and at the end of July it was raised by an additional 75 basis points to 2.5 percent. While the target rate is rising, actual interest rates are falling, with yields on the 10-year Treasury note currently at roughly the same levels as they were prior to the Federal Funds rate increases.
- Even though transit ridership surged in March, the increase was only back to October 2021 levels. As was mentioned above, office occupancy is still less than half what it was prior to the COVID-19 shutdowns.
- Retail sales surged by 1 percent in June, handily beating expectations; however, once they were adjusted for inflation, sales fell by about 0.3 percent on the month.
- Higher interest rates have begun to impact the housing market, with nearly all indications falling. New home sales are back to October 2008 levels, which was just prior to the *great recession*.

## AUGUST COMMENTARY

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Stagflation is officially here.

This is not unexpected, and periods of high inflation and poor economic growth have occurred 5 times since 1950. In effect, high inflation pushes down real GDP growth, so nearly every inflationary cycle is associated with lower than average GDP growth rates.

Stagflation also tends to be associated with recessions, and the US is now in one. Prices are increasing while at the same time production is decreasing. This is in line with the classical idea of supply and demand. Lower supply in a market will lead to increased prices all other things being equal. The US economy has been experiencing decreasing levels of production for a while now, with overall industrial production exceeding 2007 levels in only three years (2014, 2018 and 2019). As the economy has stagnated, government policy during the COVID-19 shutdowns increased the amount of money in the economy which led to a surge in inflation. Low production (stag) and high inflation (flation).

Historically periods of stagflation have lasted for about 3 years. This means that it would not be realistic to expect a recovery from this until at least the end of 2024. This does not mean that the economy will continue to shrink for three years, not does it mean that inflation will continue to run at a 10 percentish annual rate, but it does mean that inflation will outpace growth, and that wages and asset prices will fall in real terms, output will be lower than average, and the overall mood of the economy will be somber.

Of course, continued conflict in Europe, continued domestic strife and the normal politics of Washington could easily make things worse. Black swans seem to have become much more common in recent years, and businesses, including those in the motorcoach travel and tourism industry, will need to focus on maintaining as strong a balance sheet as possible during what are sure to be continued difficult times.

On the bright side, it is unlikely that this period of stagflation will lead to a surge in unemployment as occurred in past periods. Employment levels are still well below pre-COVID rates, and the labor force participation rate is back to where it was in 1972, which was before women began to enter the workforce in large percentages. This should help keep real wages from falling and will likely benefit the overall travel and tourism sector – at least when it comes to domestic visitors.

We will continue to monitor the economy closely and will report on those factors influencing the motorcoach travel and tourism sector each month. Now, more than ever, it is important to stay abreast of economic data and trends.

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](mailto:mhinton@buses.org) or 202-218-7220.