



## The Monthly Itinerary

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

#### July 2022

### JULY SUMMARY

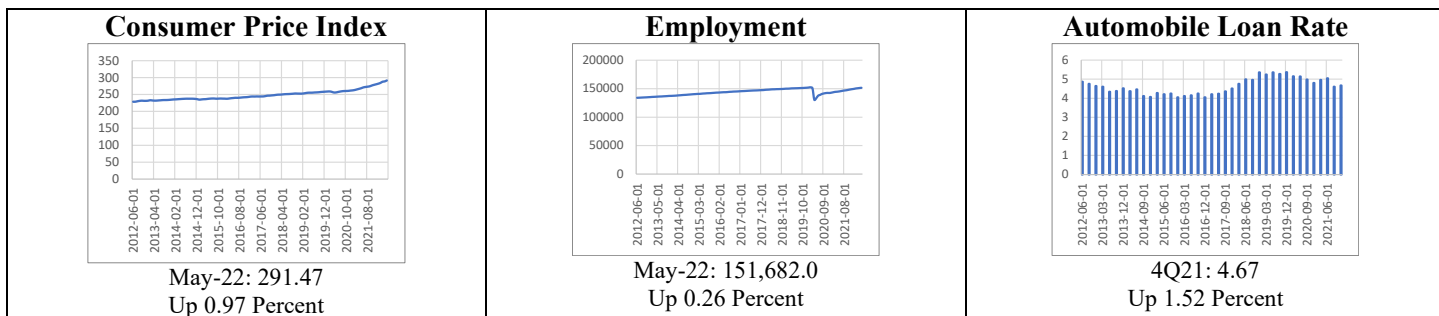
The once hoped for recovery following the COVID-19 recession seems to have hit a wall. As is noted below, the current GDPNow forecast from the Federal Reserve Bank of Atlanta has GDP not growing in the 2<sup>nd</sup> quarter, after having fallen by 1.5 percent during the first quarter. This would technically put the US economy into recession – well technically into a period of Stagflation, since the economy would be stagnant, and inflation will still be increasing.

High inflation is one of the most damaging factors for economic growth. When prices for necessities like rent, or food, or gasoline increase, and wages remain stagnant, or grow at a slower rate than prices, more and more demand shifts toward these items. Economists would say that demand for these items is inelastic and does not react quickly to higher prices. As consumers spend more on necessities, they have less disposable income to use to pay for vacations, or sporting events or the theater – the kinds of things that people take charter and tour busses to see. Businesses reduce spending on conferences and business travel. All of this means that demand for motorcoach seats will start to fall again. On the positive side, air travel is nothing to write home about right now, with airlines cutting services to secondary cities, and cancelling thousands of flights on what seems to be a daily basis. Difficulties in the air travel market could open opportunities to pick up more long-distance and intercity travelers.

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

### JULY STATISTICS

<p style="text-align: center;"><b>National Diesel Prices</b></p> <p style="text-align: center;">May-22: 5.57 Up 8.81 Percent</p>	<p style="text-align: center;"><b>Domestic Enplanements</b></p> <p style="text-align: center;">January-22: 59,270.00 Up 9.12 Percent</p>	<p style="text-align: center;"><b>Dow Jones Transportation Index</b></p> <p style="text-align: center;">May-22: 14,343.37 Down 4.23 Percent</p>
<p style="text-align: center;"><b>Transportation Services Index (Pmgr)</b></p> <p style="text-align: center;">February-22: 92.90 Up 11.93 Percent</p>	<p style="text-align: center;"><b>Transit Ridership</b></p> <p style="text-align: center;">February-22: 430,110,000 Up 10.33 Percent</p>	<p style="text-align: center;"><b>Highway Travel</b></p> <p style="text-align: center;">April-22: 14,343.37 Up 0.12 Percent</p>



## JULY ECONOMIC NEWS

- One of the most important statistics for the industry surely is the price of diesel fuel. According to the most recent data from the Department of Energy, the average price for a gallon of diesel fuel reached \$5.73 as of mid-June. ([https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=EMD\\_EPD2D\\_PTE\\_NUS\\_DPG&f=W](https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=EMD_EPD2D_PTE_NUS_DPG&f=W)). Regular gasoline also reached records with the national average hitting \$5.01 in mid-June.
- In an attempt to quell inflation by dampening demand for goods and services, the Federal Reserve raised the Federal Funds Rate by 75 basis points to 1.75 percent. Higher interest rates will dampen demand for items that consumers use debt to purchase. Already, the 30-year mortgage rate has risen to about 6.0 percent, the highest level since 2008.
- Motorcoach travel is still depressed, but air travel has been surging and is back to pre-COVID levels. Unfortunately for travelers, the airlines are not back to their pre-COVID staffing, and thousands of flights are being cancelled daily.
- According to a recent survey compiled by WFH Research, about 40 percent of all office employee workdays occurred from home. This is down from about 60 percent at the height of COVID.
- The Atlanta Federal Reserve's GDPNow reports (as of June 21) that GDP will not grow in the 2<sup>nd</sup> quarter, meaning that the US will technically be in a recession.

## JULY COMMENTARY

Inflation, particularly high inflation like much of the world is experiencing today, is not natural to the machinery of the economy. Markets are generally efficient and productivity growth tends to force prices down over time. Inflation, on the other hand, happens when there is too much demand chasing too little supply, and the reasons for the current inflationary environment are primarily the result of policy rather than of economics. There are plenty of policy errors to go around, but one big one has to do with so-called Monetary Policy, which is controlled by the Federal Reserve Board of Governors, and in particular, the Chairman of the Fed, Jerome Powell.

During the COVID-19 lockdowns, the Federal Reserve (rightly so) lowered short-term interest rates and reinvigorated its purchase of bonds from the private market as a way to lower longer-term rates (so called Quantitative Easing or QE). However, as the economy began to improve after a deep recession, and even after inflation was approaching 8 percent, the FED kept its foot on this monetary gas pedal, further stoking asset price inflation in particular. The Federal Reserve Balance Sheet grew by 28.5 percent from \$18.65 trillion to \$23.97 trillion as of the end of the first quarter – and it has continued to rise through the 2<sup>nd</sup> quarter.

Now, the Fed is raising interest rates, while at the same time rolling back on QE. This has never been done before, and there is no real way to tell what these actions will do to financial markets and the availability of capital. This is one reason why mortgage rates have increased by 80.4 percent on a year over year basis, and why capital is becoming scarce.

It took a change to Federal Reserve policy to bring the country back into balance during the last period of stagflation. Hopefully the consequences of these experimental policies will work better than a double-dip recession.

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.