



The Monthly Itinerary

The ABA Foundation's Monthly Tour Through the Economy

July 2023

JULY SUMMARY

I am writing this edition of the *Monthly Itinerary* following Independence Day while overlooking Naval Base San Diego, the principal homeport of the Pacific Fleet. With all of the political, social and economic hubbub going on these days, looking across the bay at the ships of the Pacific Fleet makes it easy to understand just how large a risk the Founding Fathers were taking back in 1776, and how long the odds were for them. At the start of the American Revolution, the Royal Navy was the largest and most powerful in the world, with over 250 vessels of all sizes. By the end of the war the Royal Navy had nearly 500 vessels. It was a number that would nearly double as the navy expanded to meet the threat posed by other European powers fighting alongside the Americans. The Continental Navy, on the other hand, consisted of at most 60 vessels, only 8 of which were true fighting ships of the line.

Against odds like these, the 13 Colonies were able to wear down the British, gaining independence on September 3, 1783, with the signing of the Peace of Paris. This created the largest country with a republican form of government in the world. Just like the Revolution itself, establishing a republican form of government at that time was a huge risk. Outside of a few independent cities, there were only about 8 republics existing as of the start of the American Revolution. Of the other republics existing at that time, only Poland, The Netherlands and San Marino are still independent republics today (although the Netherlands is a Constitutional Monarchy). Even so, by 2017, according to Pew Research, over half of all countries were Republican in some form or another.

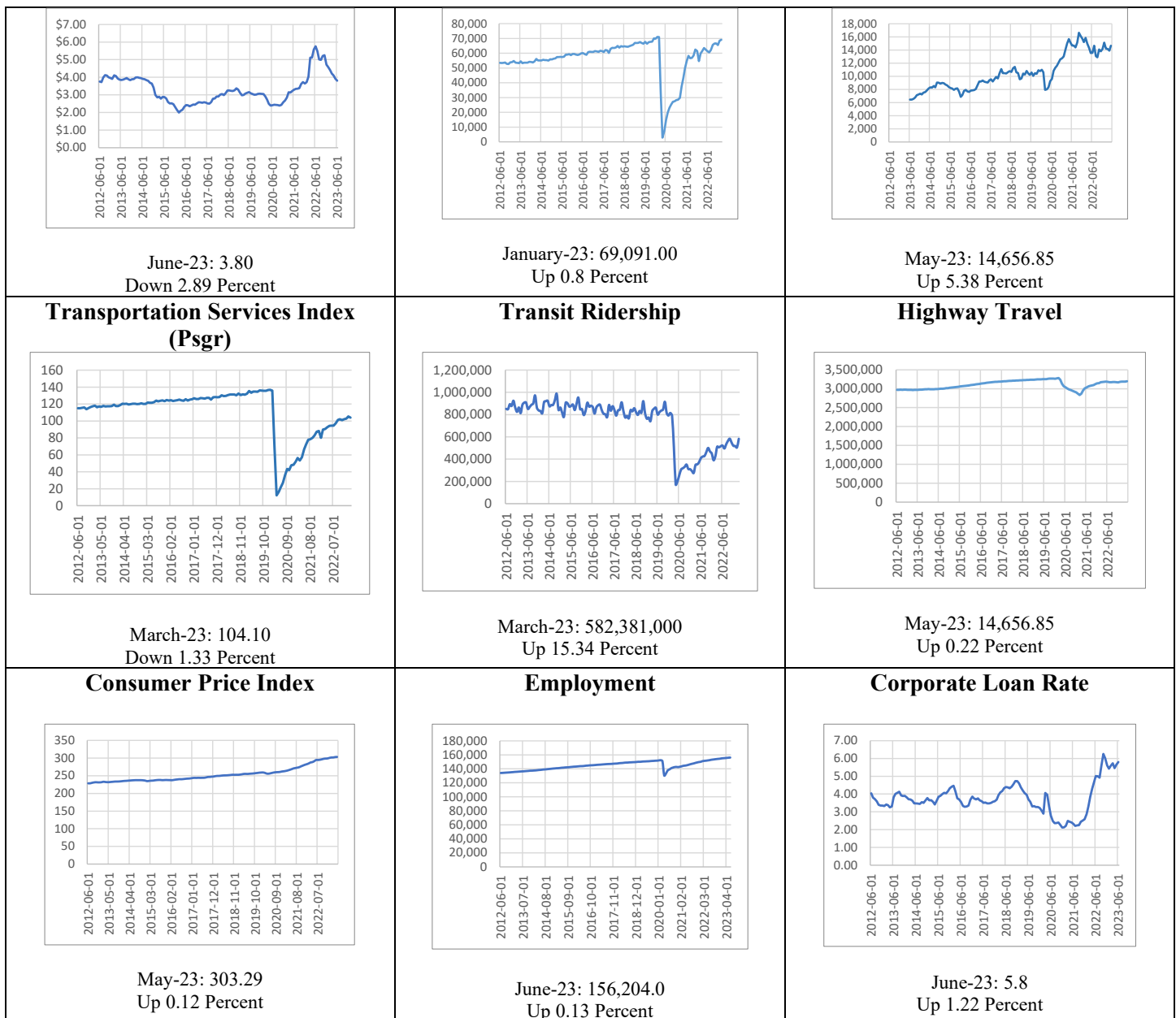
Looking across the bay at the USS Nimitz shows how things can change dramatically over time. Major changes (be they good or bad) are not always predictable. An example is the decline of center city business districts following the COVID-19 outbreak. This truly unpredictable event dramatically changed the market for commercial real estate, for the hospitality business, and for motor coach travel, particularly commuting.

It has also dramatically changed the economics profession. The statistics relied upon prior to 2020 are not as reliable today. Where one statistic suggests that something good is happening, another suggests just the opposite. This will likely be the case for some time, as the economy continues to adjust to its new reality. As this edition of *The Monthly Itinerary* is released, either jobs are soaring, or unemployment is increasing. Inflation is either getting better, or it is not, and interest rates are increasing, or maybe not. In the Commentary below, we will discuss how to interpret these discordant statistics and try to examine them in relation to the motorcoach travel industry.

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.

JUNE STATISTICS

National Diesel Prices	Domestic Enplanements	Dow Jones Transportation Index
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JULY ECONOMIC NEWS

- Diesel prices continue to fall, down by about 2.9 percent nationally in June. This reflects falling crude oil prices, which have been trending downward for over a year. However, prices might be bottoming out. OPEC and Russia are both reigning in production and exports, and just announced new production cuts for August. This will likely lead to higher prices as the year goes on.
- The Federal Reserve continues to telegraph that interest rate policy will remain hawkish in the coming months, but so far, investors seem to not believe it. Yield curve inversions are at levels not seen since 1981 and are continuing to fall. On the other hand, banks are tightening credit, and raising mortgage and other loan rates back to positive territory.
- Employment statistics are all over the place, suggesting that the statistical agencies have not adjusted their models to account for the new post-COVID realities, and changes to labor laws. During the first week of July, ADP announced that nearly half a million new private sector jobs were created in June. At the same time, the Bureau of Labor Statistics announced an increase of less than half that number (209,000). Meanwhile, new claims for unemployment insurance are rising fairly dramatically (particularly if Texas is excluded). In Canada employment was up by 0.3 percent for the month of June.

- In spite of some statistical effects, inflation continues at levels far above those favored by the Federal Reserve. The CPI is rising at about 4.0 percent as of May, and the transportation index is up by 10.1 percent on the year. In Canada the price index is up by 6.8 percent on the year.
- The Bureau of Economic Analysis dramatically increased its 1st quarter GDP growth estimate to 2.0 percent. It also announced that Gross Domestic Income (which should mirror GDP in the long term) fell by 1.8 percent and profits were down by 1.8 percent. As with the labor statistics, these numbers don't hold water and suggest that something is off in the post-COVID modeling.
- According to the American Bankruptcy institute, corporate filings are soaring. Commercial Chapter 11 filings increased 105 percent in May 2023 to 680 versus the 332 filings in May 2022. Meanwhile overall commercial filings increased 31 percent in May 2023 to 2,324 versus the 1,771 registered in May 2022, and small business filings, saw a year over year increase of 31 percent.

JULY COMMENTARY

In the doldrums of your mind, we find a gray-green ambiance. Lizard becomes man and vice-versa. Very strange but strangely logical. These lyrics are contained in the song *Lizard People*, a spoken word musical piece written by Mick Fleetwood and Peter Bardens and recorded by Fleetwood Mac as the B-side for the 1990 single *In the Back of My Mind*. It was one of only two tracks recorded by the band that featured Fleetwood as the lead vocalist.

The Lizard People conspiracy theory likely has its origins in ancient myths about dragons and snakes, but was popularized by British conspiracy theorist David Icke, in his 1999 work *The Biggest Secret*. Icke is the one who first proposed that most of the world's ancient and modern leaders are related blood-drinking, shape-shifting reptilian humanoids from the Alpha Draconis star system. Conspiracy theories abound in the world today, and some have suggested that the odd statistics coming out of Federal agencies are part of a conspiracy to elect certain politicians. As someone who has worked with Federal statistics for nearly 40 years, I can unequivocally say this is not true.

All Federal statistical agencies have to follow extremely strict formulas and model structures to derive their data. This is done not only to ensure consistency, but also to make sure that bias is not purposely embedded in them. I know this for certain from when a client of mine was trying to get the methodology for one statistic changed. It was a major process, even though the change was necessary.

Since the process for generating Federal statistics is basically fixed, and since the world itself is not, when major inflection points in the economy occur (for example recessions), the statistics become volatile. This is even more so when there is a change in the structure of an industry or of the economy itself. A couple of great examples of this at the industry level are that bottled water was added to the set of industries tracked by the Bureau of Economic Analysis; meanwhile the BEA still keeps statistics on video rental stores.

The worldwide government shutdown of the economy in response to COVID-19 was probably the most dramatic event to impact the economy since the end of the gold standard in the early 1970s. It was both dramatic and far reaching. Even the development of the internet was a fairly gradual event, unless you are keeping statistics on telephone book production (or for that matter video rental stores).

Completely shutting down the world economy really did change everything, and there are formulas and models still being used by the statistical agencies that really need to be updated. In addition, certain recent policy decisions (for example converting Uber drivers from contractors to employees) lead to dramatic one-off changes that also take time to percolate through the statistical system.

All of these changes make interpreting government statistics extremely difficult, and they all need to be taken with a huge grain of salt. This, in turn, makes decision making even more difficult.

There are, however, some things that can be done to help reorient statistics in a way to better understand them. The are:

Combine sources: Often, multiple statistics track the same thing but in different ways. Energy statistics are one place where examining different sources is particularly useful. Drilling activity, for example, is measured by Baker-Hughes. This is actual data that are released real time. WTI crude prices measure real time transactions at the oil hub in Cushing Oklahoma, a point where about 13 percent of the country's oil storage capacity is located. Henry hub natural gas prices are derived in a similar way. These data series are released on daily or weekly bases and are not based on survey data as is the Consumer Price Index. If all of the daily and weekly energy statistics show increasing prices or declining production, a CPI showing falling energy prices would likely be incorrect.

Discount "seasonally adjusted" statistics: Most government statistics contain seasonal adjustments. These adjustments are designed to account for large deviations that are the result of specific events or circumstances. For example, there is generally more travel during the summer months, and more retail purchases during the weeks prior to Christmas. These seasonal adjustment factors now are leading to large deviations that have to be revised over future months. Until the statistical agencies have time to adjust to structural changes in the economy post-COVID, seasonally adjusted statistics should generally be ignored.

Ignore large changes: Recently, large deviations from trends are being reported and often these are revised in future months. Most economic statistics do not suddenly surge or collapse unless some sort of exogenous (or external) event has occurred. So, a major change from trend in a statistic should be discounted unless there is a specific explanation.

Rely on actual vs. survey data: Most government statistics are based on surveys of individuals and businesses. All of us have received serious looking requests from different government agencies asking us to provide information on payrolls, or prices. The surveys are based on statistical samples that are likely not correct following the COVID-19 shutdowns, or the increased regulatory surge of the past couple of years. For example, the Federal Department of Labor releases four key employment statistics along with subsets of each. These are the payroll employment numbers, the household employment numbers, the unemployment rate and the unemployment insurance statistics. All of these save for the unemployment insurance statistics are based on surveys. There have been regulatory changes that have forced payrolls up even though more people are not employed. An Uber driver being put on payroll does not create a new job, but in the case of the headline employment numbers it does. Neither do people starting in-home sole proprietorships. However, filing for unemployment is an action that is measured each time it happens. The best way to look at employment right now is likely to track change in new filings for unemployment insurance.

Hopefully, these quick rules of thumb will help those in the motorcoach industry better interpret the statistics presented in *the Monthly Itinerary* as well as those in the business press.

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.
