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

March 2023

MARCH SUMMARY

Last month, we discussed how the economy has become distorted because of the unprecedented amount of debt incurred over the past few decades by corporations, individuals and mostly governments. This growth in debt, like most things in economics, was the result of incentives that had been baked into the economy and financial markets.

Since 1988 (according to the Federal Reserve) the total debt burden in the United States has risen from $ 9.8 quadrillion to $68.5 quadrillion. Yes, quadrillion or $1,000 trillion. Considering that the nation's GDP is $26.1 trillion, the nation's total borrowing is equivalent to 2,624 times the country's overall production. This would be similar to someone making $100,000 per year carrying a $262,452,100 mortgage. Hardly a great way to manage one's budget.

Back in economics school, I learned that a dollar borrowed is equal to a dollar from the future being spent now, while a dollar saved is today's spending held for the future. The country now has about $5.1 trillion in private savings, not much of an offset, meaning that it would take the country nearly 2,625 years to pay back everything that it owes, even if nothing is consumed. Of course, all of the borrowing has not been in vain, some has been used to create productive assets such as farms, factories and houses. According to the Fed, the nation holds $131.5 quadrillion in assets. This ranges from the White House, to my condo, to your buses. It does not include land owned by governments so the asset base is much higher if one considers that the Grand Canyon is probably some pretty valuable real estate.

Even so, the level of debt, and particularly the growth in overall debt has been stunning, and has been the result of easy monetary policy, including long periods of negative effective interest rates over the same period. When lenders virtually pay someone to borrow, they will. The scary thing is that much of this borrowed money has gone into consumption and into assets with very little chance of making a profit under a normal interest rate environment.

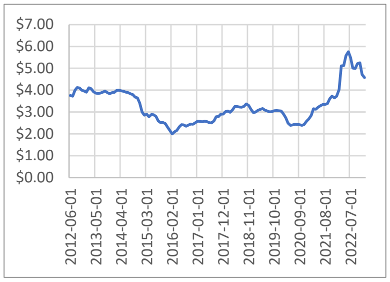
If (and it is still a big if) the Federal Reserve is able to stand up to both market and political pressures and brings inflation adjusted interest rates to 2 or 3 percent, it is likely that many businesses will be forced to fold, most public pension funds will turn belly up, and the Federal government will have no choice but to print its way out of debt (in other words higher inflation and even higher interest rates).

Holding debt is unlikely to be the winning strategy that it has been for the last 30 or 40 years. All of this liquidity can't be sustained, and what cannot continue…will end.

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.

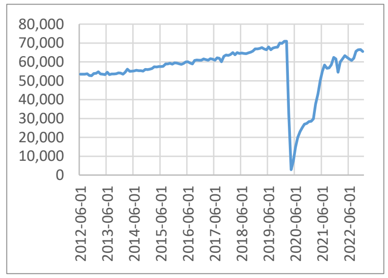
FEBRUARY STATISTICS

National Diesel Prices



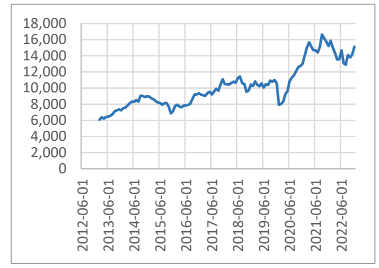
February-23: 4.41
Down 3.56 Percent

Domestic Enplanements



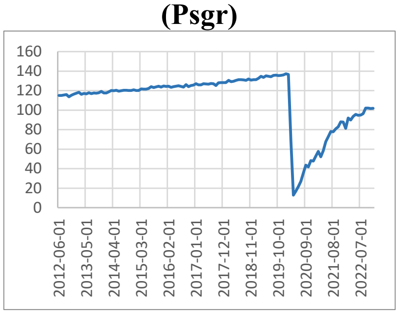
November-22: 65,537.00
Down 1.53 Percent

Dow Jones Transportation Index



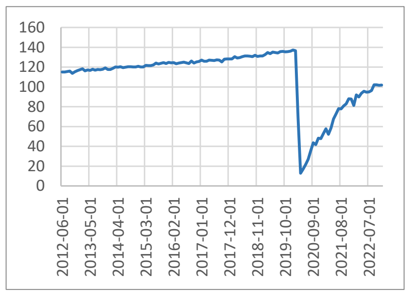
December-22: 15,109.42
Up 6.6 Percent

Transportation Services Index (Psgr)



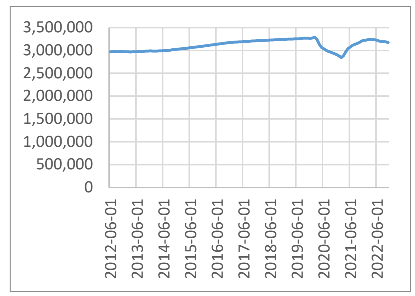
December-22: 101.90
Up 0.2 Percent

Transit Ridership



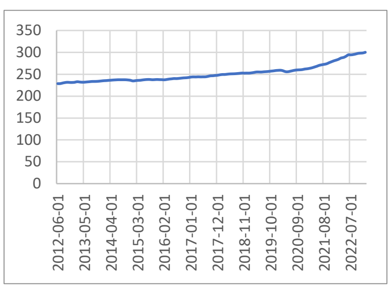
December-22: 520,286,000
Down 5.03 Percent

Highway Travel



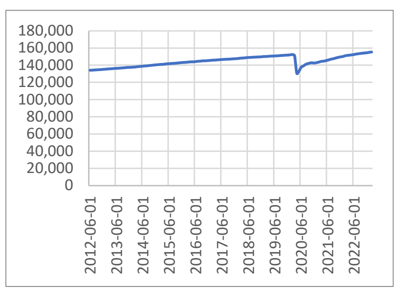
December-22: 15,109.42
Down 0.14 Percent

Consumer Price Index



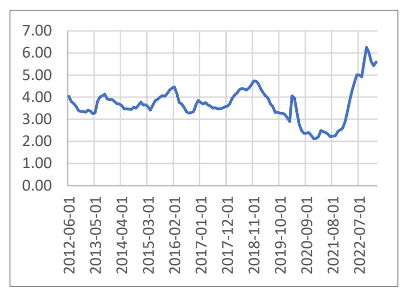
January-23: 300.54
Up 0.52 Percent

Employment



February-23: 155,350.0
Up 0.2 Percent

Corporate Loan Rate



February-23: 5.59
Down 6.99 Percent

MARCH ECONOMIC NEWS

- In an unexpected, and potentially short-sighted move, the Administration continues to drain down the Strategic Petroleum Reserve. At the end of 2022, the EIA reported that stocks in the SPR were at just 372,030,000 barrels. The last time the reserve was this low was in November of 1983, when the reserve was still being established. The Administration announced it would be selling an additional 26 million barrels in February.

- Gasoline prices have been slowly falling since the beginning of the year and the average price for a gallon of regular gas was at about $3.35 at the end of February. Diesel prices have been falling as well but maintain their spread of about $1.00 above regular.

- Meanwhile inflation continues to demonstrate to the world that it is far from “transitory.” The benchmark Consumer Price Index for All Urban Consumers increased 0.5 percent, in January, and 6.4 percent over the last 12 months.

Prices for intercity transportation (which includes motorcoach services) fell by 1.1 percent in January. Inflation in Canada was running at 5.8 percent in January after a 6.8 annualized figure for 2022.

- According to the Bureau of Labor Statistics, in July the number of people reporting that they are employed is now at 160.1 million, and according to Statistics Canada, employment was up by 0.8 percent in January to 20,032,000 individuals and the unemployment rate fell to 5.0 percent. Strong headline job growth gives the Federal Reserve cover to continue raising the Federal Funds Rate.

- Even though rates on the benchmark 10-year Treasury note have struggled to stay above 4 percent, rates for other debt are up. Junk bond rates are up to about 8.5 percent, a 30-year fixed rate mortgage is priced at roughly 6.85 percent, and new car loans are at about 6.5 percent for a 5-year note.

MARCH COMMENTARY

A lot of my friends have been calling me Grumpy lately. I guess that is true, though with the current bout of "red tide" here in Sarasota, Sneezy might be a better name. Of course, few of us remember that Walt Disney's Grumpy was the one who warned Snow White about the threat posed by the Queen and is the dwarf who leads the charge to aid her when she is in danger. So being Grumpy can maybe help one look through all of the sunshine being peddled by Wall Street pundits.

Actually, in spite of my tendency to discuss problems in the economy, I have never suggested that the end of the world is nigh. In spite of issues like soaring prices, unproductive labor, unprecedented borrowing and more regulations, it is difficult to picture the US economy falling back into a period like the Great Depression – or for that matter like any period prior to the post-war boom. Things today are just too different.

This does not mean that the economy has not been in a recessionary state ever since the COVID-19 shutdowns, nor does in mean that recession will not worsen in the coming year. What it does mean is that in spite of a cycle of ups and downs, market-based economies tend to improve over time. This is because the completive nature of a capitalist system leads to continuous improvements and occasional technological leaps. One only needs to look at the development of steam power in the 1700s, the development of electric power at the turn of the 20th century, and advancements in medicine occurring today. These factors were the key to economist Kenneth Arrow's growth model which is based on economic changes resulting from innovation and technology.

On top of this, the economy requires recessions to function, because it is recession that helps clear the economy of unproductive uses of labor and capital, what economists in the so-called *Austrian School* call malinvestments. Periods of easy credit and negative real interest rates provide businesses and consumers with improper price signals and incentives to spend and invest wisely. In fact, they are encouraged to borrow and invest in risky assets because the cost of money is so low. Recessions, and the tightening of liquidity expose these bad investments and unproductive uses of capital and labor, and free those resources for higher and better uses.

From a business point of view, a company might only borrow to purchase a new motorcoach if it is expected to return 10 percent above the cost of the capital used to acquire it. With zero interest rates, the coach only has to return 10 percent, or $50,000 on a $500,000 purchase. That motorcoach might be able to operate at just 25 percent capacity to make this return. However, were the cost of capital to rise to just 5 percent, that same coach would be required to generate $75,000 above its operating costs. This would mean that the coach would need to operate at 37.5 percent capacity. If an owner is using this coach for a marginal route, they would not make a decision to operate at a higher cost of capital, freeing up these resources for a better use. Simple economics.

So as the spending wave brought on by zero interest rate policy and fiscal handouts begins to wane, and as the economy goes into a deeper period of recession, understand that only those businesses and operations that can generate enough revenue to cover higher capital costs are likely to survive. Now, more than ever, it's important to ensure that companies are prepared. Grumpy has given you warning.