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

November 2022

NOVEMBER SUMMARY

Maybe we are just getting used to it but continued poor economic data in September and October look less bad than previous months. In fact, GDP grew during the 3rd Quarter, however, this was not due to higher production in the United States, just very weak import data and stronger export data as the country exports more and more petroleum and weaponry to Europe. In effect, higher prices and continued international problems are starting to do exactly what the Federal Reserve wants to see – reduced demand.

Of course, trade data do not show everything. It is expected that demand for stuff will fall as the economy emerges from the COVID-19 shutdown era. It was those very shutdowns that led to a huge increase in demand for goods relative to services and things like restaurant meals, entertainment, travel and haircuts that simply were not available. This is now reversing with demand for services soaring. This should benefit the motorcoach industry in the coming months, even as the economy overall continues to stagnate.

All that said, even an increase in 3rd quarter GDP does not suggest that the economy is not continuing to stagnate. And the remainder of the year is likely to continue to show recession with new home sales collapsing, demand for new cars falling, and potential new restrictions as winter leads to higher COVID-19 levels. The commentary below suggests that the country (and for that matter the world) is likely in for a very poor decade economically.

The motorcoach industry will continue to see higher prices for its main inputs (fuel, labor and capital), but it appears these cost increases are being passed on to consumers as demand for services grows. Anecdotally at least, people are flocking to the kinds of events that lead to high motorcoach usage in Autumn. College football attendance (of course outside of Colorado where my Buffalos are blown out in every game) is strong, domestic travel is up, and conferences and meetings are reporting high attendance. Whether demand will hold into the winter is questionable since tourism in urban areas (particularly New York City) is not recovering all that quickly, but higher airline prices are making intercity motorcoach travel a very practical alternative.

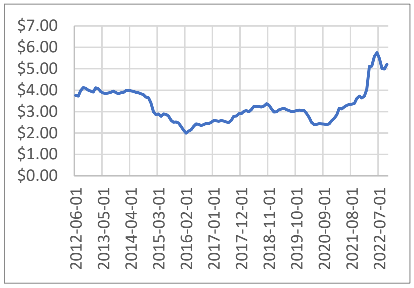
One sector that continues to suffer is commuting, with major cities still not seeing employees return to their offices. This is particularly true in both California and the Northeast where COVID restrictions and vaccine mandates are the strictest.

It is still too early to predict when the hospitality industry, and particularly the motorcoach sector, will return to pre-pandemic levels, but the worst is likely over no matter how bad the overall economy fares into 2023. Hopefully, the country will not fall back into a period of kneejerk shutdowns as the cold and flu season approaches, and international travel will continue to recover. If so, rising demand should allow carriers to continue to raise prices to at least match inflation, and higher demand will allow more companies to bring coaches out of mothball.

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.

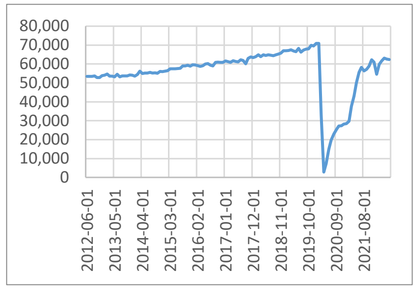
NOVEMBER STATISTICS

National Diesel Prices



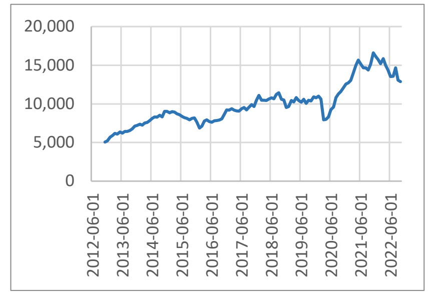
October-22: 5.21
Up 4.37 Percent

Domestic Enplanements



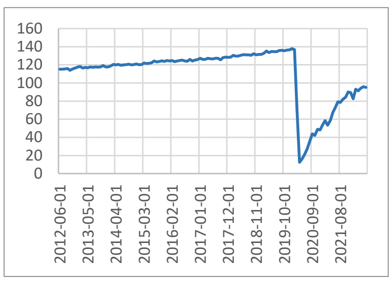
May-22: 62,301.00
Down 0.48 Percent

Dow Jones Transportation Index



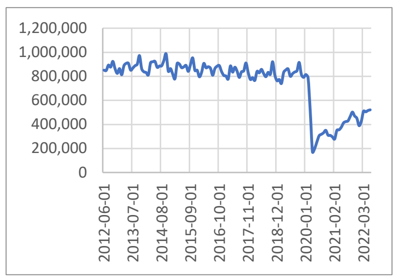
October-22: 12,876.96
Down 1.56 Percent

Transportation Services Index (Psgr)



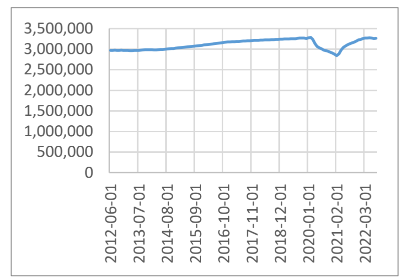
June-22: 95.10
Down 0.83 Percent

Transit Ridership



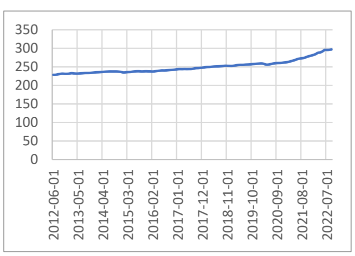
June-22: 521,492,000
Up 1.11 Percent

Highway Travel



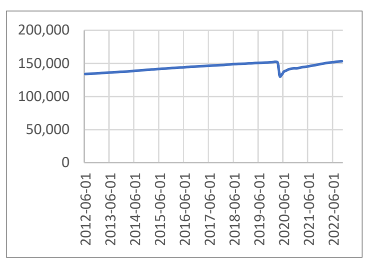
August-22: 12,876.96
Up 0.05 Percent

Consumer Price Index



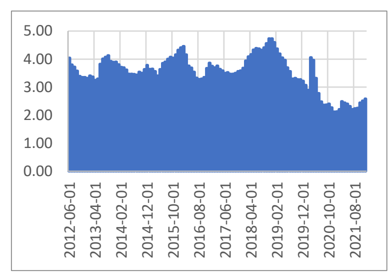
September-22: 296.76
Up 0.39 Percent

Employment



October-22: 153,308.0
Up 0.17 Percent

Corporate Loan Rate



October-22: 6.25
Up 25 Percent

NOVEMBER ECONOMIC NEWS

- So far this year, crude oil stocks are down by about 17 percent as the Administration has drained the Strategic Petroleum Reserve in an attempt to keep retail gasoline prices down. Meanwhile petroleum exports have soared as the US has increased sales to Europe and other countries cut off from Russian supplies of petroleum and natural gas.

- Gasoline prices have remained fairly flat over the past month; however, diesel prices are up by about 10.4 percent over the past month and are back to July levels.

- 3rd Quarter GDP rose by 2.6 percent, but this was a pyrrhic victory since it was based on the consumption of the nation's *seed corn* as the Strategic Petroleum Reserve was drained, weapons were shipped to Ukraine to be destroyed, and the nation's energy resources were shipped to Europe.

- On the positive front, employment in the motorcoach industry is back to 91 percent of pre-COVID levels, and fares for intercity transportation are now above where they were at the beginning of 2000 (though not adjusted for inflation).

- According to the Bureau of Labor Statistics, in July the number of people reporting that they are employed is now at 158.6 million, higher than before the outbreak of COVID-19, but down by 328,000 individuals. Unemployment rates remain low (just 2.7 percent). According to Statistics Canada, employment was up by 108,000 persons in October and the unemployment rate remained flat at 5.2 percent.

- The US employment to population ratio has stagnated at 60.0 percent and has not budged since March, meaning that labor continues to be difficult to find. Employment growth rates in the hospitality sector have leveled off at about 0.3 percent per month.

- Prices continue to escalate, with September annualized inflation at 8.2 percent. Canadian inflation was 6.8 percent in September.

- While fuel costs continue to soar, reduced demand for imports has helped to bring freight shipping costs down. Delays at West Coast ports have subsided and reduced demand for trucking is beginning to lead to bankruptcies in that sector. Even so, potential labor actions by rail and stevedore unions are likely to lead to higher prices and new capacity constraints.

NOVEMBER COMMENTARY

The major economic story continues to be inflation and interest rate hikes. From a simple economics perspective, there is no question as to why inflation has soared. Ever since the so-called Great Recession of the late 2000s, the Federal Reserve has been on a money printing spree. This was called quantitative easing and led to an addition of $13.3 trillion in the most commonly used measure of the money supply. Over the same period real GDP increased by just $4.1 trillion. As every Econ 101 professor says to their class, more money chasing fewer goods leads to higher prices.

Making things worse, this massive increase in the money supply was enhanced by $15 trillion in increased federal debt. Of this, about $6 trillion is part of the money supply increase, so the overall increase in Federal Reserve Notes and Federal debt is about $22 trillion over the period from 2008 to today. Taking GDP as a flow variable, the overall increase in production during that period was $8.8 trillion in nominal dollars, so without increasing production about $13.2 trillion in pent up inflation exists in the economy today. Since GDP is $23.3 trillion in nominal dollars, nearly half of the economy needs to be inflated away. No wonder CPI is holding well above 8 percent.

The only tool that the Federal Reserve really has to reduce inflation is to destroy demand – in effect bring on recession. It does this by raising interest rates. This is why the Federal Funds Rate has been increased from 0.8 percent in March to 3.83 percent today and according to Chairman Powell, it will likely increase again next month.

While this is likely to keep the economy in recession, it still will not reduce inflation as long as the Federal Government continues to borrow (in effect print dollars). While the debt level is down, the Congressional Budget Office in its May 2022 economic forecast calls for an additional $3.1 trillion in debt over the next ten years. This is likely a very rosy forecast.

Put this all together, add in a declining labor force, increased regulation (that helps destroy productivity), energy shortages, and current and potential international conflicts, and the baseline for the economy through the remainder of the decade is not looking all that good.

All this said, black swan events happen, and while the past couple of years have seem some doozies on the negative side, positive events happen as well. Penicillin was discovered in 1928, Nicola Tesla produced commercial electricity in 1896, and Netscape brought the internet to the masses in 1994. These events eventually changed the trajectory of the economy. Over the next dozen years cancer may be cured, cold fusion might be developed, or aliens may bring an end to war. Nothing is impossible, and there is simply no way to predict these black swan events.

For now, businesses need to understand that the economy will likely be very stagnant if not declining for the next few years, inflation will remain high, interest rates will rise, and labor will remain difficult to find. That is the base case that all businesses must live with.

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 or 202-218-7220.