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The Monthly Itinerary

The ABA Foundation's Monthly Tour Through the Economy

October 2022

OCTOBER SUMMARY

The economic data through September is better relative to the 2nd quarter, but it is nothing to write home about. Retail sales continue to be flat to negative, suggesting that there will most likely be a 3rd quarter of negative GDP. This is despite continued fiscal stimulus. Inflation tamed somewhat but that was almost solely because of falling gas prices, which reflected massive selloffs in oil from the strategic petroleum reserve. Overall, the economy continues to flatline.

Meanwhile, the Federal Reserve continues to hike short-term interest rates at a clip that has not been seen since the 1980s. Markets and many economists (including yours truly) were expecting that Chairman Jerome Powell would turn dovish in the wake of a weakening economy. This was what held equity markets up near stratospheric levels through the summer months. Fortunately for the economy (and unfortunately for punters), Chairman Powell seems to be experiencing some sort of demonic possession by the ghost of Paul Volker and is now expected to continue to raise interest rates into the recessionary storm. This will have the effect of lowering inflation, but at the expense of economic growth.

With midterm elections approaching, the Biden Administration, Congress and many state governors are implementing populist strategies to keep their voters happy. Therefore ideas like student loan forgiveness, draining the strategic petroleum reserve, relief checks to help offset high gas prices, and subsidies for things such as electric vehicles are being implemented. While these types of programs will help stimulate the economy in the very short term, they will also force up inflation, which will in-turn lead to more actions by the Fed. This push-me, pull-you political realm will unfortunately end up in failure, and either inflation or recession will win in the end (see the Argentinian example of 100 percent annual inflation and 75 percent interest rates).

If production were able to increase significantly, inflation could be squeezed out of the system without serious demand destruction, but large-scale increases in output are unlikely under the current environment where political risk and high corporate debt levels make investment impractical.


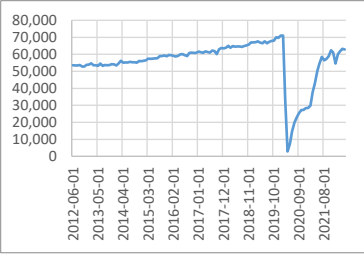
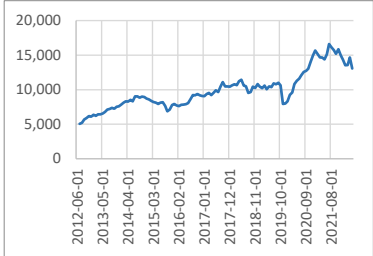
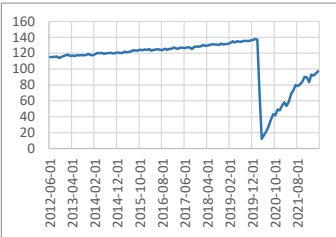
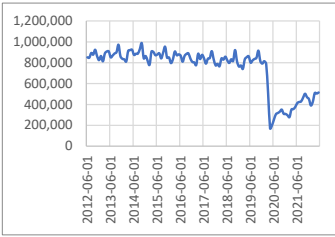
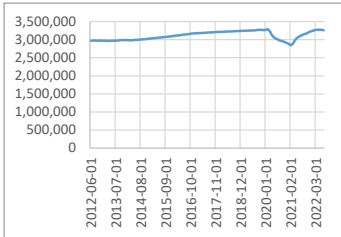
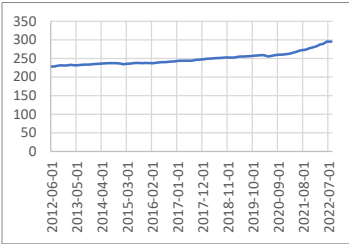
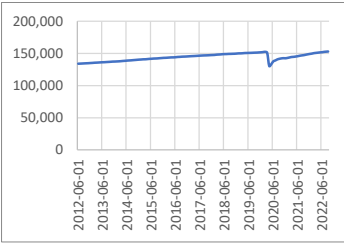
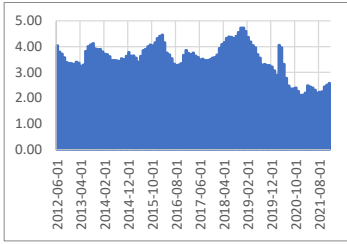
On the positive side, crowds at both collegiate and professional football games have been large as spectators continue to come out of their COVID bubbles. Travel remains strong, with employment in the ground transportation sector now at 90 percent of pre-COVID levels according to the Bureau of Labor Statistics. The same data suggest that overall employment in leisure and hospitality is back to about 93 percent of levels reached in February of 2020. Even international tourism is starting to recover.

All of this suggests that while headwinds will continue as the motorcoach industry enters its busy Autumn season, things are nowhere near as bad as they were. If people continue to sacrifice savings and purchases of goods, and keep traveling even in the face of recession, things should continue to improve at a moderate pace. Hopefully, forecasters are correct, and the recession will be long but shallow.

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.

Note that beginning this month, the interest rate on auto loans has been replaced with the interest rate for BBB corporate debt. The data on the automobile loan rates has been spotty, and this series likely more accurately reflects finance costs for motorcoaches.

OCTOBER STATISTICS

<p>National Diesel Prices</p>  <p>September-22: 4.99 Down 0.4 Percent</p>	<p>Domestic Enplanements</p>  <p>April-22: 62,829.00 Down 0.69 Percent</p>	<p>Dow Jones Transportation Index</p>  <p>May-22: 13,081.52 Down 10.76 Percent</p>
<p>Transportation Services Index (Psgr)</p>  <p>May-22: 97.30 Up 2.85 Percent</p>	<p>Transit Ridership</p>  <p>May-22: 515,066,000 Up 2.09 Percent</p>	<p>Highway Travel</p>  <p>July-22: 13,081.52 Down 0.3 Percent</p>
<p>Consumer Price Index</p>  <p>August-22: 295.62 Up 0.12 Percent</p>	<p>Employment</p>  <p>September-22: 153,018.0 Up 0.17 Percent</p>	<p>Corporate Loan Rate</p>  <p>September-22: 5.59 Up 11.58 Percent</p>

OCTOBER ECONOMIC NEWS

- Gasoline prices have fallen by 25.7 percent since peaking in June; however, diesel prices remain stubbornly high, down by just 16.7 percent, and at last report, still close to \$5.00 per gallon.
- Falling gasoline prices have come at the expense of the Strategic Petroleum Reserve, and the nation's military readiness. Since the beginning of 2021, the SPR has been depleted by over a third (35.0 percent). It is now at 2023 levels.
- According to the Bureau of Labor Statistics, in July the number of people reporting that they are employed was at 158.9 million in September. This figure has remained fairly constant since March. Canadian employment fell by 40,000 in August and unemployment sits at 5.2 percent. The US unemployment rate fell to 3.5 percent.

- After coming in flat in July, inflation began rising again in August, with the overall index showing annualized inflation at 8.3 percent. Canadian inflation was 7.0 percent in August.
- As was mentioned above, employment in the hospitality sector has been increasing for 21 months, and now stands at 15,845,000. This is just 7 percent below pre-COVID levels.
- The National Restaurant Association's Restaurant Performance Index (RPI) has been trending down since the end of 2021 and now stands at just 101.9. A figure below 100 shows that the industry is contracting and is a major indicator of recession.
- Total vehicle sales fell slightly in August to just 13.6 million vehicles (annualized). This is well below *normal* levels of about 14.5 million.

OCTOBER COMMENTARY

Unfortunately, there are many issues plaguing the economy right now, and many of them have sizable impacts on the motorcoach industry. Last month we discussed energy prices. Prior to the COVID outbreak, energy in all forms (including electricity) accounted for roughly 32.2 percent of motorcoach industry input costs. The other major costs were hospitality spending (restaurants, hotels, theaters, other transportation etc.), labor and capital/equipment.

The current economic situation is obviously pushing energy costs through the roof, and there is little to suggest that this will change in any significant way over the remainder of the year. Add to this general inflation, which in the case of the hospitality sector has been running at 8.0 percent in restaurants, 4.5 percent in hotels, and 21.1 percent in transportation services, all of which impact the cost of supplying motorcoach services all means that the cost of goods sold (or COGS) for motorcoach trips, charters and tours will continue to rise for some time.

Labor is another important industry component, accounting for about 11.8 percent of overall costs pre-COVID. So far, the industry has seen wages rise between 9 and 16 percent depending on the type of operation. As demand, particularly demand for drivers, continues to increase, companies can expect to see labor costs continue to increase at levels well above the rate of inflation.

Finally, interest expenses accounted for roughly 1.7 percent of costs prior to COVID, and the most recent policy statements by the Federal Reserve suggest that these costs are just beginning to rise.

The sustained period of inflation means that consumers are expecting to see prices increase, and demand for travel has remained strong despite the economic problems. Even so, there will be continued pressure on motorcoach company profits as the most important inputs rise faster than general inflation. Higher capital costs will make it more difficult to enact productivity measures, meaning that the industry will be squeezed even as demand continues to rise back toward pre-COVID levels.

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.