



## The Monthly Itinerary

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

#### September 2023

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### SEPTEMBER SUMMARY

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I have heard that Labor Day is the time when we all say good-bye to summer and think about all of the things that we should have done but didn't. As I write this edition of the *Monthly Itinerary*, I'm in a hotel room in Colorado, and I just watched my alma mater defeat its long-time rival in football. Considering that just last year, the Colorado Buffaloes were the worst college football team in the country, this was both an exciting and a shocking moment. It also points out that everything can change, and sometimes it even does.

As we mentioned last month, time and progress never stop, and what was certain just a year ago, or a month ago, can change rapidly. This is both a reason for optimism (like here in Boulder), but also something of great concern. Even the best of forecasters don't always catch inflection points in business cycles or in the economy, and surprises are more common than one might think.

Right now, it still appears as if the US economy is on a continued downward trend, flirting with recession, though maybe not quite, and that inflation is back on an upward trend. This suggests that the stagflation that we have been discussing will continue to be the order of the day. This is what we expect, and the data will show it when all the revisions come in. But our expectations might be too optimistic. There are some ugly headwinds that are facing the economy, particularly extremely high debt levels, and massive problems in the commercial real estate sector. Along with that, there is a potential for more bank failures, particularly among regional banks that are highly tied to commercial mortgages. On the other hand, there are some big technological breakthroughs on the horizon including the development of improved artificial intelligence, new drug therapies, and just recently the discovery of what may be the largest lithium deposits in the world here in the US.

In business, making decisions pertaining to investments or hiring, or starting a new project are all based on expectations and experience. The inflection points in the economy are extremely difficult to determine in advance; however, right now it is likely that the economy will continue to stagnate, and even the now prosperous travel and tourism sector will start to feel the shakes as the new year begins. The *Monthly Itinerary* will continue to provide a monthly snapshot of what we know, as a means of helping all of the members of the American Bus Association cope with these interesting times.

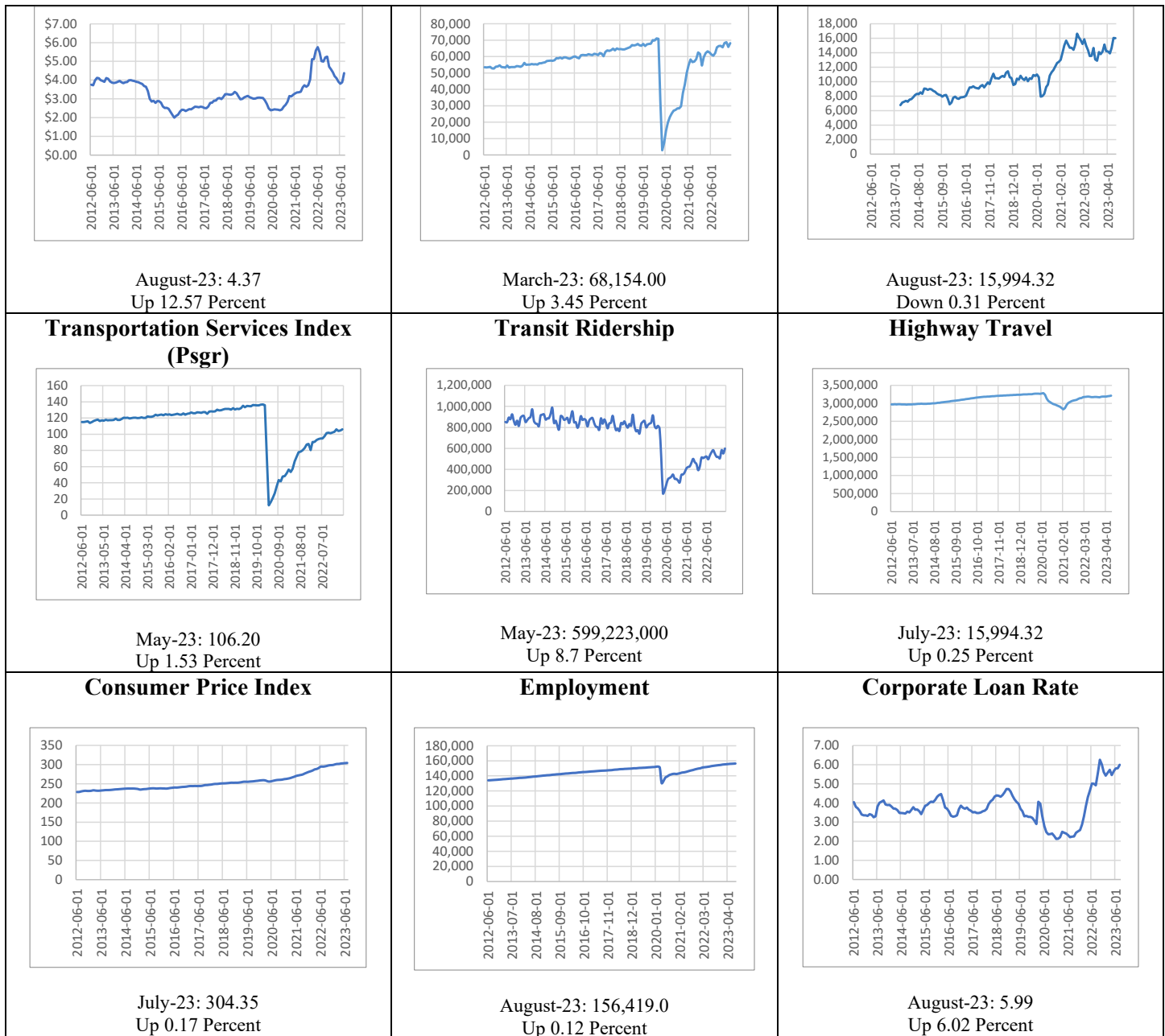
*The Monthly Itinerary* reports on some of these key indicators. Please let us know if there are any other indicators that you believe are important to track going forward in 2023.

*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.

### AUGUST STATISTICS

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National Diesel Prices	Domestic Enplanements	Dow Jones Transportation Index
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## SEPTEMBER ECONOMIC NEWS

- The Strategic Petroleum is now below levels of August 1983, a remarkable reduction of 50.1 percent since the Biden Administration began to drain the stockpile. The loss of the reserve makes it extremely difficult to either buffer the impact of an oil embargo or shutdown of sea routes, and leaves no stockpile were the military required to respond to an emergency.
- As the SPR has been drained, the impact on diesel fuel prices has been negligible. Currently at about \$4.50 per gallon, prices are back to where they were at the beginning of the year and are continuing to rise. So far, they have not matched peak levels of about \$5.70 per gallon, and the Energy Information Agency changed its forecasts and now suggests that crude prices will continue to be elevated for the rest of the year.
- The Bureau of Economic Analysis downgraded its initial 2<sup>nd</sup> quarter GDP growth estimate from 2.4 to 2.1 percent. Most economic statistics are experiencing downward revisions, something that generally signals recession.
- The Consumer Price Index rose by an annual rate of 3.2 percent in July. There are statistical reasons to expect the CPI to increase over the remainder of the year. Inflation in Canada was at 3.3 percent in July.

- Job growth moderated in August. Only 187,000 new jobs were reported for the month and the unemployment rate rose to 3.8 percent. However, job numbers for the prior 3 months were revised downward by about the same amount. In Canada, employment grew by 0.2 percent in August and the unemployment rate stood at 5.5 percent.
- The weakening employment numbers are not large enough to persuade the Federal Reserve to stop interest rate increases. It is likely that the Federal Funds rate will be increased by an additional 25 basis points this year.
- Despite news reports decrying the possibility of a federal government shutdown, the odds are about 100 percent that Congress will pass another continuing resolution to keep the government operating for at least another 3 to 6 months well before the deadline at the end of the month.

## SEPTEMBER COMMENTARY

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*Pretty hurts. Shine the light on whatever's worse. Perfection is the disease of a nation. Pretty hurts. Shine the light on whatever's worse. Tryna fix something, but you can't fix what you can't see. It's the soul that needs the surgery.* So goes the chorus to the song *Pretty Hurts*, written by Sia Furler, Joshua Coleman, and Beyoncé Knowles. The song was performed by Beyoncé and released on her self-titled fifth studio album in 2014. One of the funny things about the economy is that politicians, and for that matter economists themselves, all have prescriptions to fix something that they cannot see. In most cases, the prescriptions do not provide the correct surgery.

Despite what the president is saying about Bidenomics, pretty much all of the growth in the US economy right now is the result of federal deficit spending. Due to continued spending on the part of both the administration and Congress, the budget deficit this year has grown to record levels. The Orwellian-named Inflation Reduction Act (IRA) and other spending programs recently enacted by Congress are adding trillions of dollars to the federal deficit over the next few years. Adding reductions in federal tax revenues, due to reduced incomes, the deficit is likely to increase to levels that were well above the pandemic years. All this deficit spending will lead to losses in productivity, higher inflation, and lower real wages.

While the government continues to borrow at record levels, consumer debt levels have fallen slightly in recent months as banks are becoming much stingier in terms of loan approvals. This all means that a larger portion of the economy is dependent on government activities, which are not just non-productive, but can lead to negative changes in overall productivity, as they pull resources from productive private-sector investments to consumption. The shift toward government spending will keep growth rates, wage levels, and employment growth below trend, creating a negative feedback loop.

At the same time, increasing regulations and government-fueled consumption will make it harder for the Fed to control inflation, and the worst of the recent inflationary bout may be yet to come.

The economic statistics have been in flux, so it is difficult to directly see measurements of the failing US economy; however, revisions in 2024 are likely to be extremely negative, and it is likely that the economy has been in recession for some time already. All that said, things could get worse if more regional banks fail, and investors become insecure and pull out their funds. Such a bank run will lead to some difficult choices for regulators as the reserves to bail out depositors run dry.

This negative picture of the economy is much worse than the expected continuation of stagflation.

On the positive side, high regulatory costs have not stifled innovation. AI is the current buzzword, but there are thousands of ongoing research and development projects going on at company laboratories, universities, and regulatory agency labs. Any one of these ongoing activities could easily provide the *surgery* that the *soul needs*. New forms of information sharing and technology could lead to breakthrough developments or new industries that can pull the country out of the current doldrums.

The United States is nowhere near *perfection*, and the prospects for the next couple of years still look bleak. However, just as the Buffaloes surprised Nebraska on the gridiron, change can come quickly to economies. Let's all hope for positive ones.

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*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.

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