OCTOBER SUMMARY

While this edition of the *Monthly Itinerary* looks back to September, October has already started off with yet another Black Swan Event, as terrorists from Hamas have brutally attacked the civilian population of Israel in a highly coordinated attack on several fronts. This has led Israel to declare war on Hamas and will likely lead to either a reoccupation of the Gaza Strip, or a complete obliteration of the region. No matter what, war has once again erupted in the Middle East.

One reason economic forecasting – or for that matter planning in general – is difficult is that these sorts of black swan events seem to happen all of the time. The Roman poet Juvenal coined the term in a poem written in the latter part of the 1st century. At the time black swans were presumed not to exist, so the term was a description of an impossible event or circumstance. The term was applied to economics and popularized by Nassim Nicholas Taleb, who explored black swan events in financial markets. He argued that human beings tend to be narrow-minded in their beliefs about the world, making them blind to concepts that fall outside what is accepted as true. This is one reason dogma, no matter how strange it may often sound, is so difficult to counter.

Since forecasting is generally based on past trends, it is particularly susceptible to black swan events. Thus, the dramatic impact of COVID-19 on the economy and general psyche. This is also why wars, even though they are common enough to be not just white swans but pigeons, tend to leave everybody unprepared. Today, two of these black swan wars are in full swing, as another black swan descended on Congress. For the first time in history, a sitting House Speaker was ousted in a “motion to vacate the chair.” According to the Strauss–Howe generational theory of cycles, we can expect that a whole flock of black swans may be heading our way.

From an economic perspective, it is likely that the new conflict in Israel will lead to more negative impacts. There is no doubt that energy prices will increase – on top of already surging prices for diesel fuel. This will help to further stoke inflation and will likely force the Federal Reserve’s hand to increase short-term interest rates further. Higher short-term rates will add more pressure to the banking sector, and could trigger more failures, particularly among regional institutions.

Higher interest rates and fuel prices will have an outsized impact on the motorcoach industry, as credit and fuel are two major inputs. On the demand side, any additional surge in terrorist incidents could have a dampening effect, particularly from reduced international tourism. This would be a big swing from mid-summer when the travel and tourism sector was the major driver of employment and growth.

As the swallows (er…. black swans) come home to Capistrano, the economy will be one of the major factors impacting the motorcoach industry. Keeping abreast of key economic trends will be an important part of determining strategies to prosper in difficult economic 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 or 202-218-7220.
SEPTEMBER STATISTICS

**National Diesel Prices**  
September-23: 4.56  
Up 4.42 Percent

**Domestic Enplanements**  
April-23: 66,558.00  
Down 1.75 Percent

**Dow Jones Transportation Index**  
September-23: 15,198.31  
Down 4.98 Percent

**Transportation Services Index (Psgr)**  
May-23: 106.20  
Up 1.53 Percent

**Transit Ridership**  
May-23: 599,223,000  
Up 8.7 Percent

**Highway Travel**  
August-23: 15,198.31  
Up 0.21 Percent

**Consumer Price Index**  
August-23: 306.27  
Up 0.63 Percent

**Employment**  
September-23: 156,874.0  
Up 0.21 Percent

**Corporate Loan Rate**  
September-23: 6.15  
Up 6.03 Percent

OCTOBER ECONOMIC NEWS

- As a war in the Middle East becomes a reality, the draining of the Strategic Petroleum Reserve by the Federal Government turns out to be a truly short-sighted policy. July reserves of 347.5 million barrels are 52.2 percent below January 2010’s peak levels. On the positive side, even with increased regulation, higher prices have pushed US production back to peak levels reached prior to the Biden Administration.

- While diesel prices peaked on June 20, 2022, at $5.81 per barrel, they are again rising. Early October price levels are back to $4.60 per gallon. This price point is about 5 percent of the price of a barrel of crude, and it right at the long-term trend level, so as crude prices increase so too will the price of diesel.

- The Bureau of Economic Analysis’ 3rd estimate of 2nd quarter GDP growth was held constant at 2.1 percent; however, it slightly reduced its price estimates. Recent economic data have been highly volatile, and it is expected that there will be sizable annual revisions reported at the end of the year.
• As expected, the Consumer Price Index continued to increase in the second half of the year, with the August value up by 3.7 percent from the same time during 2022. Inflation in Canada was at 4 percent in August.

• After a demonstration of political pageantry, Congress passed a continuing resolution (CR) to keep Federal spending at roughly current levels through Nov. 17. The enactment of the CR led to the ouster of House Speaker Kevin McCarthy by an alliance of all of the House Democrat members and a handful of Republicans.

• Preliminary data from the Bureau of Labor Statistics reports that there was an increase of 67,100 jobs in the ground passenger transportation sector in September. This is a jump of 17.4 percent; however, it reflects seasonal hiring in the education space. On a seasonally adjusted basis, employment was down slightly.

OCTOBER COMMENTARY

*Yield* was the fifth studio album by Seattle rock band Pearl Jam. Produced by Brendan O’Brien, and released on Feb. 3, 1998, they reached number two on the Billboard 200.

The term *yield* can have a number of meanings. If you are driving a motorcoach, it can mean *to give way*, as in yielding to traffic. If you are a farmer, it can mean *to bring forth* as in yielding good crops. It can mean *to give up possession* as in Congress one can yield their time, and it can mean *to succumb*, as in yield to temptation.

From a financial perspective, a yield is the return that one makes from an investment, like a bond, which can yield a rate of interest. It’s a term that is used in the financial press all of the time, as in *the yield on the 10-year bond is 4.2 percent*. It’s also a phrase that economists use to describe a financial statistic that is claimed to be a great indicator of recession – *the yield curve*.

The yield curve is a simple concept. It is basically the line drawn between the interest rate on similar bonds of different duration. Generally, this is applied to bonds and notes issued by the US government. Bond yields (or interest) are a payment made by a borrower to a lender, a rate of interest. In most cases, lenders expect to receive a higher yield on debt of a longer duration. This accounts for the financial risks associated with lending, such as inflation, default, alien invasions, etc. The longer the duration, the greater possibility of something occurring that would either lead to default, or that would decrease the worth of the payment stream on the debt. Therefore, it is generally expected that the yield curve would slope upward, with shorter duration bonds and notes paying a lower rate of interest than longer term ones. It is measured by indicators such as the difference in rates between the 2- to 10-year bonds, or the federal funds rate and the 10-year bond.

Historically the difference (or spread) between the 2- and 10-year bonds is positive, with the 10-year *yielding* more than the 2-year. However, sometimes the spread between longer and shorter duration debt instruments turns negative, with the longer-term bond *yielding* less than the shorter term one. A negative (or inverted) 2-10 spread happens rarely and is almost never more than a half-a-percent or so. Recently, the negative spread reached more than 1 percent only twice – during the double recession of the early 1980’s and during the COVID-19 recession. In addition, an inverted yield curve generally reverses itself fairly quickly.

Inverted yield curves happen when investors think that the near-term is riskier than the long term. As the spread between short-term and long-term interest rates narrows, the yield curve begins to flatten, and when the spread turns negative, the yield curve inverts. This is why (at least statistically) an inverted yield curve signals that investors are expecting a recession. In fact, inverted yield curves have preceded every recession since 1956.

This makes sense, since when economic cycles reach their peak, they tend to be inflationary, and the Federal Reserve begins to hike short-term rates. As such, the upward slope of the yield curve tends to flatten as short-term rates increase and longer yields stay stable or decline slightly. As concerns of an impending recession increase, investors tend to buy safer long-term Treasury bonds. Higher demand forces down yields to long maturities, and they fall below short-term rates, forming an inverted yield curve. This usually happens about a year before recession hits.

Of course, all of this is based on looking backward, not forward. Black swan events like COVID-19 and the wars raging in places like Israel, Ukraine, and central Africa, will all impact the economy in unpredictable ways. Even so, an inversion...
in the yield curve of the recent magnitude and length is hard to ignore, since the last time it happened was in 1978, just before the deepest recession since the Great Depression (and yes this was a deeper recession than the 2008 financial crisis).

All told, the inverted yield, along with persistent inflation, and now at least three major international conflicts, does not bode well for the economy. If the US is not already in recession it is now extremely unlikely that one will be avoided.

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.