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

December 2023

DECEMBER SUMMARY

We are quickly approaching the end of the year, and black swans continue to land all across the world. Wars continue in Ukraine and Israel, and now, just to make things more fun, the dictator of Venezuela is threatening to attack its smaller neighbor, Guyana. Of course, in order to do this the attack force would likely have to transit the territory of Brazil, drawing that country into the fight as well. According to the Council on Foreign Relations, the addition of Venezuela means that there are now conflicts going on in 28 countries and territories around the world.

Meanwhile, Europe is in recession, Canada is in recession, in spite of the statistics, the US is likely in recession, and Japan, well Japan is always in recession. The bottom line is that the whole world is in a pretty terrible state as 2023 ends.

Even with the soft economy, for many industries, including the motorcoach industry, 2023 itself was pretty solid, and a darn lot better than it was in the prior couple of years. This is mainly the result of a huge surge in travel, as both pent up demand from the COVID-19 period, and billions of dollars in stimulus going to some of the wealthiest Americans created an ideal situation for the hospitality industry. Employment (a good proxy for activity) in the tourism and charter segments of the motorcoach industry overall reached back to pre-Covid levels; however, commuter travel has not recovered in a significant way.

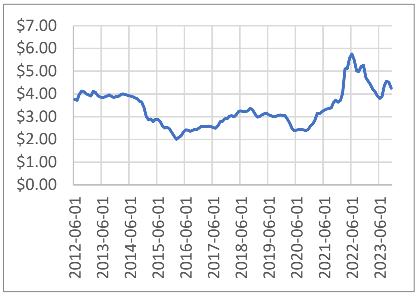
This surge in travel is likely to slow in the coming year as the massive stimulus payments under the employee retention credit program are coming to an end, and it is unlikely that Congress will enact any additional stimulus. Even so, it is clear that outside of commuting, the motorcoach segment has made it past the COVID-19 shutdowns, and consolidation and rationalization has made it financially stronger. As the economy slows, interest rates will subside to some extent making it easier for companies to refinance and continue to strengthen.

We all wish you happy holidays and a wonderful new year. Next month, the *Monthly Itinerary* will review last year's predictions for the economy in 2023 and present the forecast for 2024.

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.

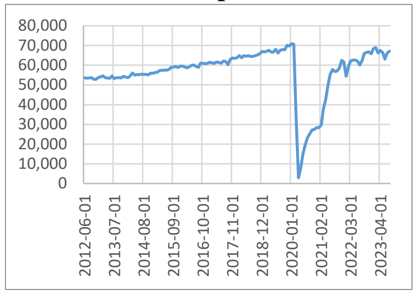
NOVEMBER STATISTICS

National Diesel Prices



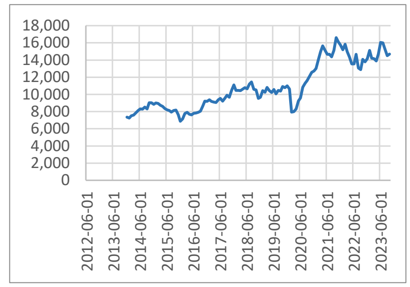
November-23: 4.25
Down 5.61 Percent

Domestic Enplanements



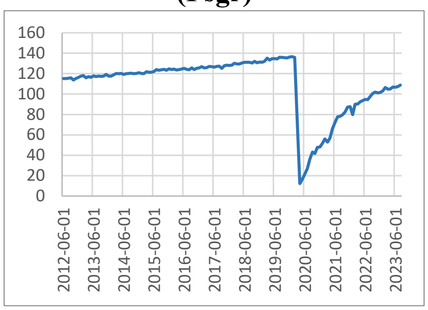
2Q23: 67,114.00
Up 1.57 Percent

Dow Jones Transportation Index



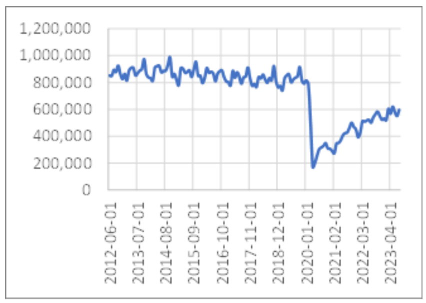
October-23: 14,689.18
Up 1.2 Percent

Transportation Services Index (Psgr)



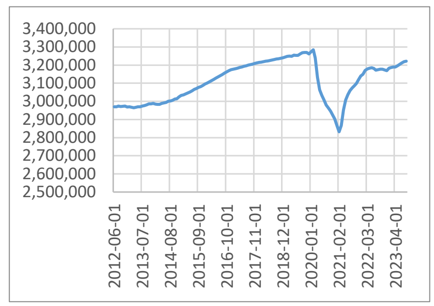
August-23: 108.90
Up 1.4 Percent

Transit Ridership



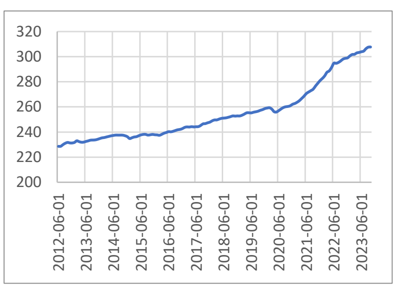
August-23: 596,441,000
Up 8.3 Percent

Highway Travel



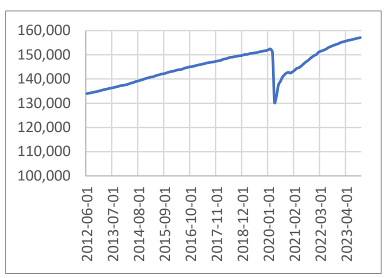
September-23: 14,689.18
Up 0.07 Percent

Consumer Price Index



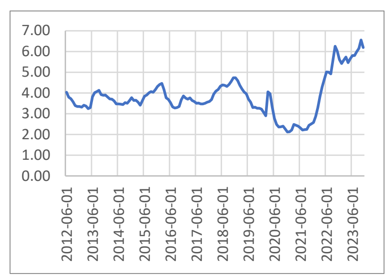
October-23: 307.62
Up 0.04 Percent

Employment



November-23: 157,087.0
Up 0.13 Percent

Corporate Loan Rate



November-23: 6.19
Up 3.34 Percent

DECEMBER ECONOMIC NEWS

- In the statistics don’t always represent reality, the Bureau of Economic Analysis reported that GDP during the 3rd quarter rose at an astonishing rate of 5.2 percent. Growth was widespread, though driven mostly by consumption expenditures (note that GDP is measured by consumption not production).

- Meanwhile growth in inflation stalled in October, with the CPI remaining flat. This was not across the board, however, with reductions in prices for automobiles and gasoline being offset by higher prices elsewhere.

- Lower prices for gasoline were not matched by declines in diesel prices, which remain well above $4.00 per gallon. In addition, the Strategic Petroleum Reserve remains at record low levels, and it is not likely that the Administration will be able to continue to drain it further to artificially reduce gasoline prices during the 2024 election.

- Employment statistics were influenced by strikes against the automotive industry in October, with payroll employment up by 199,000 in November, and the unemployment rate falling to 3.7 percent.

- Inflation in Canada was at 3.1 percent in October, while the unemployment rate rose to 5.8 percent.

- Investors are convinced that the Federal Reserve will buckle and start to bring interest rates down. This is sending the yield curve even further into inversion, with short-term interest rates well above long-term rates. The yield on the 10-year treasury fell by nearly 100 basis points in November.

- The change in the 10-year rate suggests that markets expect that the Federal Reserve will reduce the Federal Funds Rate by 125 basis points in 2024, or 5 rate cuts.

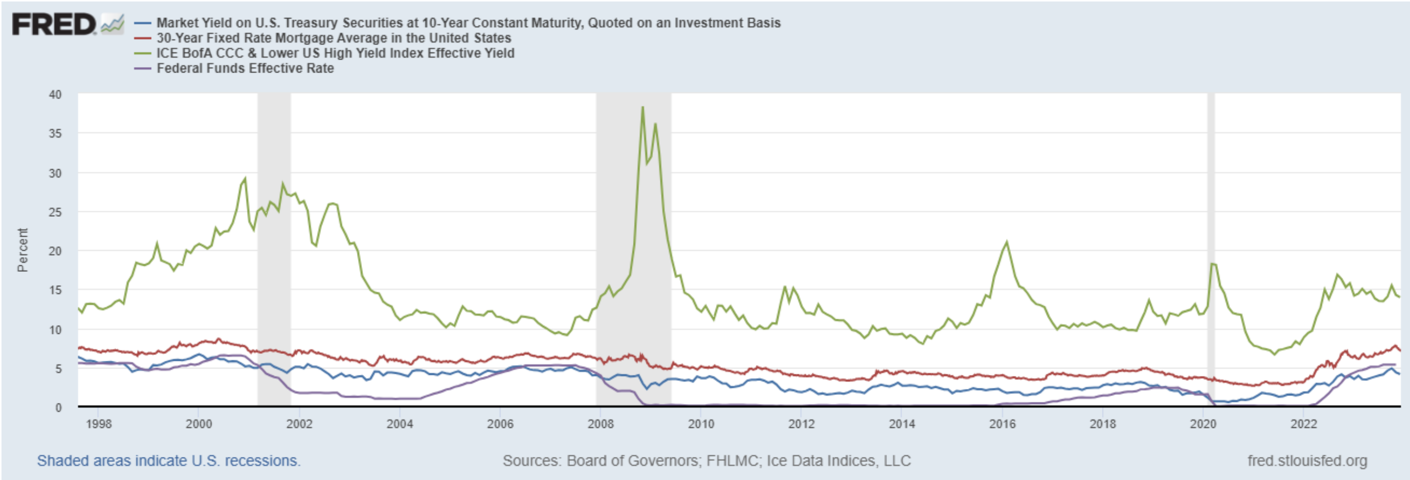
DECEMBER COMMENTARY

“Eight miles high, and when you touch down / you'll find that it's stranger than known / Signs in the street, that say where you're going / are somewhere just being their own” is the first verse of the song “Eight Miles High.” Written by Gene Clark, Roger McGuinn, and David Crosby, the song was released as a single in March 1966. Eight miles high is where the Federal Funds rate stands in comparison to interest rates in the market. Most Wall Street bankers and pundits say that this is because *markets* expect the Federal Reserve to dramatically cut interest rates next year in response to a softening economy and deflation. Of course, these pundits are incorrect at the outset.

While nobody can really predict how the Fed will act, particularly in an election year, there is certainly not going to be deflation. Just like inflation is a general increase in prices across the economy, deflation is a general decrease in prices. It is not an inflationary situation when gasoline or diesel prices increase relative to everything else, nor is it deflationary when these prices fall relative to everything else. This is why Nobel Lauriat economist Milton Freedman famously suggested that inflation is a monetary problem.

As long as the Federal government keeps borrowing, and as long as the Federal Reserve keeps printing money in order to satisfy that borrowing, then inflation will persist. It would take a sustained fall in the supply of money in the economy for that to change, and there is a better indication of a band of Bigfoot coming out of the forest than there is of Congress reducing Federal borrowing.

There has not been a bout of deflation since the end of the Second World War. In fact, the last time the economy experienced deflation was during the Great Depression. In effect, it is impossible for an economy to deflate when there is a fiat currency. With nothing to set a ceiling on money supply, the value of the currency cannot generally rise relative to the amount of production in the economy. It would take a substantial effort on the part of the government to reduce its existing debt for this to happen.



So, what is up with the pundits? First, let's look at their prediction. The yield on the 10-year Treasury is about 4.7 percent as this is being written. Historically, the 10-year yield is about 2.5 times the Federal Fund Rate (although with a lot of volatility). This means that a 10-year yield of 4.7 percent would equate to a Federal Funds Rate (FFR) of just 1.9 percent. Therefore, the pundits are expecting that the Fed will reduce its overnight rate from 5.5 percent to say 2.0 percent, a reduction of 250 basis points. This is a larger drop than the response to the shutdown of the economy during COVID-19.

This *hopium*, as some have described it, does not appear to be infecting actual loan markets. The 30-year fixed interest mortgage rate usually is about 1.5 times the FFR, and that is where it stands today. A drop to 1.9 percent would put mortgages back around 2.9 or 3.0 percent. Something that has happened only during the magical period of COVID.

How does this impact the motorcoach industry? Well, companies rely on debt to expand their operations. Even with surplus coaches available, companies will have to borrow to purchase them. The current yield on CCC rated debt (or junk bonds as they are sometimes called) is about 14.75 percent. Based on historical data, this rate already implies a FFR of just 3.6 percent. This suggests that lenders expect the FFR to come down by about 230 basis points which suggests that the Fed would lower rates 5 times in 2024. Even an extremely dovish Fed would be unlikely to do this, and with Jerome Powell at the helm during an election year such a reduction is again unlikely.

All of this suggests that interest rates on corporate borrowing are relatively good when considering the present cost of money, and even if the Fed were to reduce rates next year, much of the pricing has already been taken by the markets. As such, capital costs for business will remain high even after (or if) inflation subsides. Current rates may not be *eight miles high*, but they sure are *stranger than known.*

The Monthly Itinerary is 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.