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

January 2024

JANUARY SUMMARY

As the world enters 2024, there are still major problems.

Geopolitically, wars are ongoing in Ukraine and Gaza, and there are at least five other major conflicts around the world. Europe is in recession, Japan has never come out of recession, and China—well, nobody knows because Chinese statistics are always suspect. On the economic front, even though some of the headline statistics look good, the underlying details are painting a different picture. Filings for unemployment are rising, as are corporate bankruptcies. And even though the rate of growth has fallen, inflation is still rising at well above historical norms. While we would like to be more bullish about the state of the economy going into 2024, the bearish undercurrent is just too strong.

This is the time of year when we look back and see what we said about the coming year in last year's *Monthly Itinerary* as well as present forecasts for the coming 365 days. This often takes the air right out of my sails as I look back to see how optimistic, or pessimistic, I was a year ago. This is surely the case as 2024 rolls around, as I was extremely (and I still believe rightly) pessimistic at the time.

Back in January 2023, all signs pointed to a long, shallow recession, and even today, in spite of the statistics, I'm not convinced that this may not have been the case. Sure, GDP rose, but it was not because of some huge jump in production, but rather due to the continuation of massive government stimulus. In fact, huge amounts of COVID-19 stimulus continued to be doled out by the federal government all through 2023. This alone accounted for about 76.3 percent of the growth in GDP over the period. Had transfer payments gone back to pre-COVID levels, GDP growth over the past four quarters would have been just 0.6 percent. This does not differ much from our projection of zero percent growth for the year. Since all of the excess stimuli came from increased borrowing, I leave it to the reader to decide if the country is currently in a recession or not. The bottom line is that our forecasts were remarkably negative when compared to the actual statistics, but likely pretty good once the continuation of massive stimulus spending is taken into account. In effect, the stimulus was a black swan event that did not seem likely at the beginning of the year, so we're going to take a mulligan on this one.

Most economists were also overly pessimistic. JPMorgan Chase (and about every bank economist) said the US would enter recession, unemployment would surge, and interest rates would tumble. Well, at least we out-forecast the bankers.

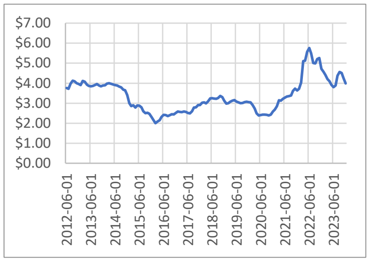
Other predictions for 2023 really went south. For example, Dmitry Medvedev, the former president of Russia, said that in 2023, the UK would rejoin the EU and that war would break out between France and the Fourth Reich. I guess his forecasts were as good as those of a Russian Victory in Ukraine. Ross Douthat, a writer for the *NY Times,* said that Nikki Haley's presidential candidacy will be less viable than that of Mike Pence; Anthony Scaramucci (remember him) said that President Trump would drop out of the race; and Ben Shapiro stated that *Barbie* would be a flop—*right.*

And of course, the New York Jets did not win the AFC Eastern Division.

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 Peter Pantuso at ppantuso@buses.org or 202-218-7229.

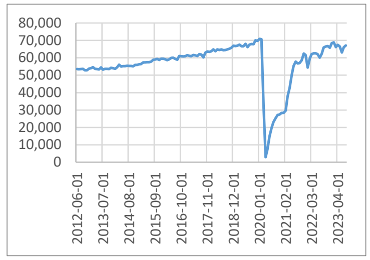
DECEMBER STATISTICS

National Diesel Prices



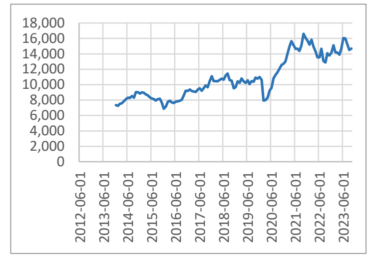
December-23: 3.99
Down 6.18 Percent

Domestic Enplanements



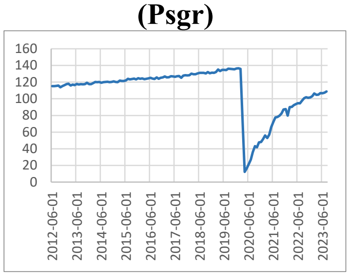
3Q2023: 67,114.00
Up 1.57 Percent

Dow Jones Transportation Index



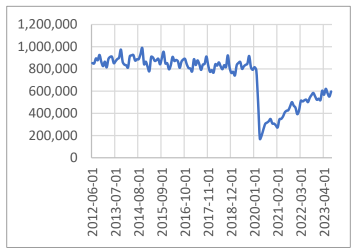
October-23: 14,689.18
Up 1.2 Percent

Transportation Services Index (Psgr)



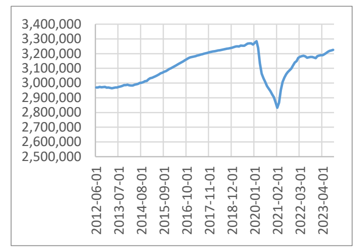
August-23: 108.90
Up 1.4 Percent

Transit Ridership



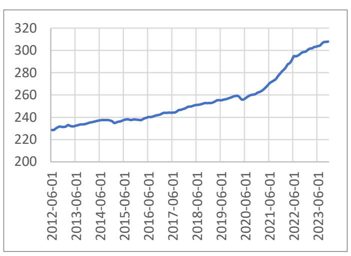
August-23: 596,441,000
Up 8.3 Percent

Highway Travel



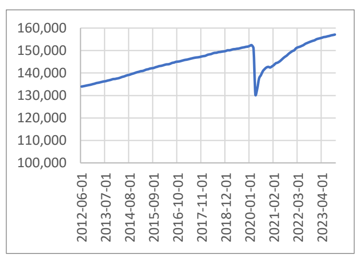
October-23: 14,689.18
Up 0.11 Percent

Consumer Price Index



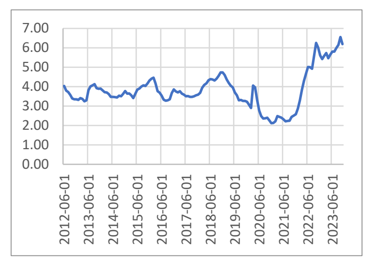
November-23: 307.92
Up 0.1 Percent

Employment



November-23: 157,087.0
Up 0.13 Percent

Corporate Loan Rate



November-23: 6.19
Up 3.34 Percent

JANUARY ECONOMIC NEWS

- The Federal Government maintained the Strategic Petroleum reserve at 351,274,000 barrels in October, showing no intent to increase reserves in light of increasing world tensions. On the positive side, US oil production in October continued to increase above pre-COVID record levels, coming in at 410,703,000 barrels.

- As of Christmas, diesel prices were back below $4.00 per gallon for the first time since July. The spread between diesel and regular increased to about 80 cents per gallon.

- Employment grew by 199,000 in November, and the unemployment rate fell from 3.9 to 3.7 percent. Overall, employment growth has been trending downward, and continuing unemployment insurance claims have been surging. While employment rose moderately in Canada to 20.3 million, both unemployment rates and the number of unemployed increased slightly.

- The Consumer Price Index increased by an annualized rate of 3.14 percent in November. This is still elevated but is stabilizing. While many Wall Street pundits still expect to see the Federal Reserve dramatically reduce the Federal Funds Rate, the odds still favor a pause, and at most two 25 bps reductions. Inflation in Canada was at 3.8 percent in November.

- Meanwhile, "hopium" on Wall Street is back at all-time highs, as pundits continue to believe that the Federal Reserve will drop the Federal Funds Rate back into negative territory. The inversion of the yield curve (as measured by the spread between three-month and 10-year federal debt) is back above -1.5, an inversion last seen back in June and again near record highs. The yield on junk bonds has fallen by 210 basis points, despite increasing bankruptcies. It is impossible to justify these low yields considering that reported GDP is running at 5.1 percent.

JANUARY COMMENTARY

"We're leaving together but still, it's farewell / and maybe, we'll come back to Earth, who can tell? / I guess there is no one to blame / We're leaving ground / Will things ever be the same again? /It's the final countdown, the final countdown." Okay, strange lyrics to bring in the New Year, but with all that is going on in the world, sometimes you have to wonder if it is the final countdown. Of course, these are the lyrics to the 1986 hit, "The Final Countdown," written by Joey Tempest, and released by the Swedish rock band Europe on its album of the same name.

As was mentioned in the summary above, we, along with most economists, were way too pessimistic in 2023. There were obvious reasons for this, but it surely was not the best year for our profession. The bottom line was that the continuation of fiscal stimulus drove the economy through 2023, and our forecasts for pretty much everything were off. During the past four quarters, personal consumption expenditures have risen by about 2 percent, roughly twice our forecast, but again this was driven by continued stimulus payments on the part of the federal government. This also propped up employment, meaning that the average stayed well below our 4-ish percent predictions.

On the interest rate front, we were not far off on the forecast for the federal funds rate, which will likely end the year at 5.25 percent. At this level, the rate on the 10-year note should be about 7 percent. It is actually below 5 percent, but the yield curve has been inverted since November of last year, an extremely long period relative to historical norms.

Finally, WTI oil process held at about $80 per barrel throughout the course of the year. This was due to a remarkable surge in domestic production, something that we thought would be unlikely considering the increased regulatory burden and hostility to drilling from the Administration. This was truly unexpected.

So, with our tail hung low, and our head held high, we look forward and throw the entrails and see what they say about the US economy in 2024.

As with every forecast, this needs to be taken with a grain of salt. As with last year, there are a lot of unknowns, and even though it is unlikely that much will change domestically as we enter an election year, the world has become extremely unpredictable. Events not only in Ukraine and Israel will impact the overall world economy, but so too might other military actions (Venezuela and China?) as well as headwinds from deepening recessions in Europe and Canada.

Overall, we continue to see an economy mired in stagflation, and this is unlikely to change. With an election year, and Congress unable to even agree on what day it is, it is unlikely that any new stimulus will be passed in 2024. That said, it is also unlikely that a budget will be passed either, so we can only expect to see continuing resolutions which will keep deficits at roughly 3 percent of GDP. This will continue to stimulate the economy, meaning that reported GDP will continue to bump around, though likely stay above the zero bound through the year. Real consumer spending will also stay soft, probably at levels from the Obama years of 0.5 to 1.0 percent growth. This is the definition of a stagnant economy.

Lower growth in consumer spending will affect jobs. The most recent statistics on joblessness suggest that widespread growth in new unemployment claims, and business bankruptcies, will undoubtedly spike next year as more zombie companies go the way of WeWork. Even a declining workforce will not be enough to keep unemployment rates from moving north of 4 percent, with the overall rate increasing over the course of the year. Even so, inflation will remain with us through 2024. The numbers reported above do not reflect the reality of increasing food and housing inflation, which will keep the CPI well above the Federal Reserve's 2 percent target for some time to come.

Sticky inflation will encourage Jerome Powell to keep interest rates relatively high even though he will face increased pressure from the growing dovish contingency on the Board. Expect to see investors proven wrong about their beliefs that the Fed will reduce the discount rate by at least 200 basis points next year, with the possibility of only one or two small reductions, likely in the 2nd or 3rd quarter. If Powell is able to hold the line, interest rates for longer term vehicles (like the 10-year Treasury Note) should start to come back toward reality.

Oil prices are a difficult one to predict for the coming year. Recent forecasts from the US Energy Information Administration (EIA) suggest that gasoline consumption will stagnate next year (a recession forecast?), with spot WTI prices averaging about $90 over the course of the year. This suggests that production will fall, however, the EIA forecasts production to increase modestly. We have been surprised about the resilience of the American oil industry and think that production will continue to increase in spite of continuing increases in regulations. That said, at some point even the Biden Administration will have to admit that draining the Strategic Petroleum Reserve was a dangerous idea and will need to begin restocking. Depending on how aggressive the Administration gets (and this likely depends on polling numbers), we may see prices range from about $85 to $95 per barrel. We will err on the low side with an $85 average for the year. Don’t expect diesel prices to go down either as there simply is not enough refining capacity. That said, the spread between gasoline and diesel prices will likely lessen as more US-produced crude enters the system.

In sum, we expect to see another year of stagflation and retrenching on the business front, with demand stifled by inflation, higher interest rates, and low levels of capital investments. Continued large Federal deficits and exports of both energy and weapons are likely to continue to provide a positive push for the economy unless something dramatic happens around the world. Depending on the number of black swan events, the overall trajectory of the US economy remains one of slow growth, low productivity, and higher prices.

Based on these general findings, our most recent forecasts for 2024 are presented in the following chart.

	2024/1	2024/2	2024/3	2024/4	2024 Average
Gross Domestic Product	0.0%	-1.0%	0.0%	1.5%	0.1%
Consumer Spending	0.5%	0.0%	0.5%	1.0%	0.5%
Unemployment Rate	4.0%	4.3%	4.4%	4.4%	4.3%
Consumer Price Index	3.3%	3.1%	3.0%	3.2%	3.2%
Federal Funds Rate	5.25%	5.00%	4.75%	4.75%	4.94%
10-Year Note Yield	6.50%	6.75%	6.25%	6.50%	6.50%
WTI Oil Price	$ 81.00	$ 82.00	$ 88.00	$ 90.00	$ 85.25