Current Trends in the Transportation Economy

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The views I will express are my own and do not necessarily reflect the positions of the Federal Reserve Bank of St. Louis or the Federal Reserve System.
Overview

• The Role and Structure of the Federal Reserve

• Trends in Transportation
  • E-commerce
  • Tariffs

• Fed publications
  • Beige Book, Economic Synopses, FRED, On the Economy blog, Page One Economics
• Board of Governors in Washington, D.C.
• 12 independent regional Reserve banks
• Federal Open Market Committee (FOMC)
The Eighth District

- A leader in:
  - Economic research
  - Data & analysis
  - Fiscal agent services for U.S. Treasury
  - Bank supervision
  - Economic education
Eighth District Beige Book
Memphis Zone October 2018

- Economic conditions in the District have improved slightly since our previous report
- Price pressures have increased modestly primarily due to higher transportation costs
- Reports from consumer spending contacts remained mixed
- Manufacturers reported modest growth with increases in production and new orders
- Agriculture and natural resources conditions have improved slightly since the previous report
Transportation Industry Insights (Regional)

• Overall
  - Generally optimistic outlook with automotive industry more neutral

• Demand and Tonnage
  - Increased air traffic (4% nationwide; 6% in STL)
  - Demand trending ahead for rail outside of coal (Port of Little Rock best year for port and rail traffic, 15%↑ in tonnage)
  - Wal-Mart 7% truck tonnage ↑ year over year

• Global Economy
  - Dislike recent tariff hikes because of uncertain climate for future prices
  - Concern about Commerce Secretary investigation of Section 232 of Trade Expansion Act of 1962 whether certain imports constitute threat to national security; imported metals for automobiles
Transportation Industry Insights (Regional) cont.

• Global Economy (cont.)
  - Local international companies in the region are having difficulty securing visas
  - Large ocean carriers are predicting double digit prices increase compounded by new proposed legislation requiring carriers to use higher fuel grades

• Capital Expenditures
  - Higher than projected CapX (Airline and PTC)
    • Rail continued investment due to Positive Train Control implementation
  - Federal funding limited recently, but not major problem because of self funding
    • Talk of increased taxes on mileage or diesel tax

• Employment
  - Single greatest impediment to success is attracting workers
  - Trucking shortage of 60K projected to reach 100K in five years
Tariffs

- **Economic Synopses**
  - Analysis from 1980-2006
  - Examined episodes where import tariffs increased at least 3.5 percentage points in a year

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**Figure 2**

**GDP per Capita, Investment, and Wages**

Change Relative to Year Before Tariff Increase (Year -1)

- GDP per Capita (% deviation from trend)
- Investment/GDP
- Total Wages (% deviation from trend)

**Years After Tariff Increase**

NOTE: GDP per capita and total annual wages are denominated in 2011 U.S. dollars. The results for total annual wages are based on a subset of 14 countries for which we have data available.

SOURCE: World Bank, OECD, and authors' calculations.
Tariffs

• On the Economy Blog
  − April 3, 2018 US imposed 25% tariffs on goods from China
  − April 4, 2018 China imposed 25% tariffs on goods from US
  − 312,800 US jobs supported by the exported goods on China’s list (Agriculture, manufacturing and service)
E-Commerce

• E-Commerce retail sales have more than doubled post recession
• However E-Commerce retail sales still represent less than 10% of Total Sales
The Economics of Flying: How Competitive Are the Friendly Skies?

by Scott A. Wolla and Carolyn Backus

“If the Wright brothers were alive today, Wilbur would have to fire Orville to reduce costs.”
—Herb Kelleher, Co-Founder, Chairman Emeritus and former CEO of Southwest Airlines

Introduction

Figure 1: The Rise and Fall of Airfares

Airfares rose in the wake of the mergers, particularly since some airlines were attempting to pull themselves out of bankruptcy. However, airfares began to drop several years ago (Figure 1). If oligopolies have an increased level of market power, or the power to set prices, what has caused this recent decrease in airfares? Once again, a shift in the structure of the airline industry might help explain the shift in prices.
Please share your insights on the current economic conditions

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