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**MEMPHIS BRANCH**

# Current Trends in the Transportation Economy

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# Disclaimer

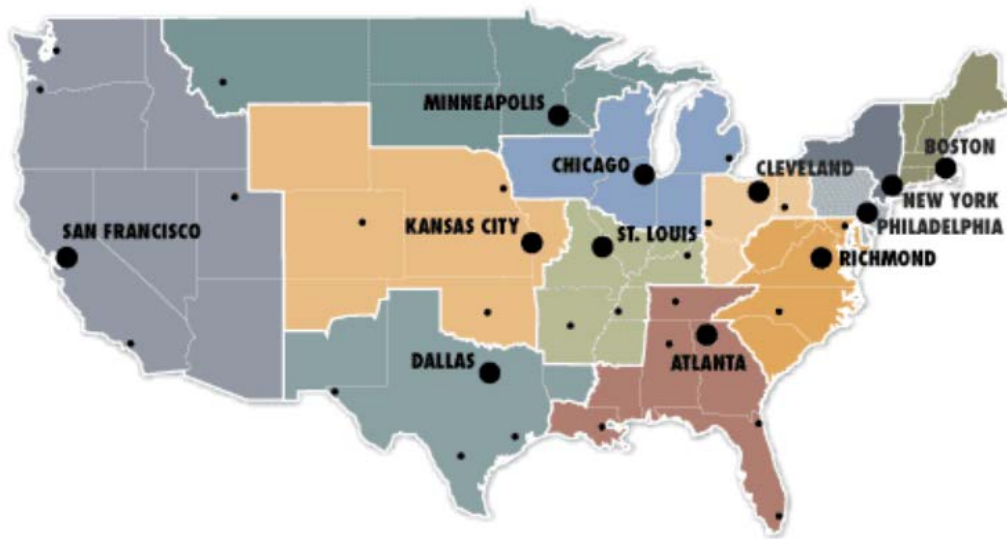
The views I will express are my own and do not necessarily reflect the positions of the Federal Reserve Bank of St. Louis or the Federal Reserve System.



# 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)



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# 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

## Summary of Economic Activity

Reports from contacts suggest economic conditions have continued to improve at a modest pace since our previous report. Labor market conditions remain tight. Employment grew slightly and wage growth was modest. Overall inflation strengthened slightly, held down by a slight decline in commodity prices. Reports on consumer spending were generally positive. Residential real estate activity improved modestly while construction activity was little changed. District banks reported increased lending activity driven by robust growth in commercial and industrial loans. Agriculture and natural resources conditions have remained generally unchanged since the previous report.

### Employment and Wages

Anecdotal evidence suggests employment has grown slightly since the previous report. There were reports of modest increases in manufacturing employment in Arkansas and Missouri as well as a modest increase in small business employment in Missouri. Contacts continued to report difficulties finding qualified employees. For example, a construction contact in Little Rock reported difficulties filling skilled positions, and a used-auto retailer reported trouble hiring mechanics and technicians. Several organizations in Little Rock have undertaken initiatives to create training opportunities to address the skills gap.

Wages have increased modestly since the previous report. Reports from contacts in Little Rock indicate that wages have risen for workers such as truck drivers,

Midwest led to a significant increase in barge freight rates along the Mississippi River.

After modest to moderate increases through the first two months of the year, commodity prices have declined slightly since the previous report. Wheat, sorghum, corn, and soybean prices decreased moderately, and coal, cotton, and rice prices were unchanged.

### Consumer Spending

Reports from general retailers, auto dealers, and hoteliers indicate that consumer spending has modestly increased since our previous report. Real sales tax collections decreased in Missouri relative to a year ago but increased in Arkansas, Tennessee, and Kentucky. Consumer confidence surveys continued to show improvements in West Tennessee, although households expect no change in their level of spending over the next few

# 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

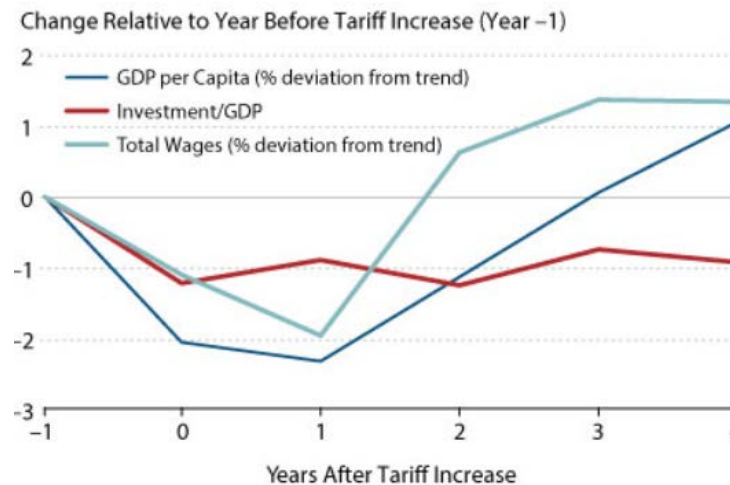


# Tariffs

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



Figure 2  
**GDP per Capita, Investment, and Wages**

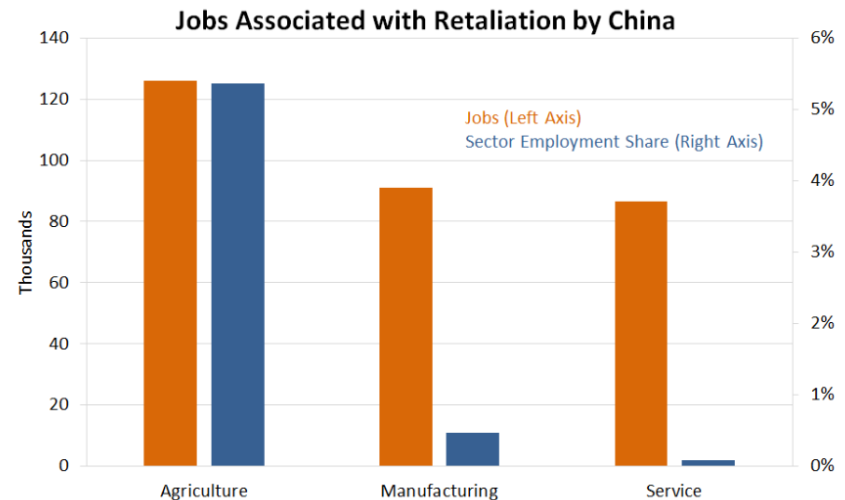


NOTE: GDP per capita and total annual wages are denominated in 2011 U.S. dollars. The results for total annual wages are based on a subset of 14 countries for which we have data available.

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)

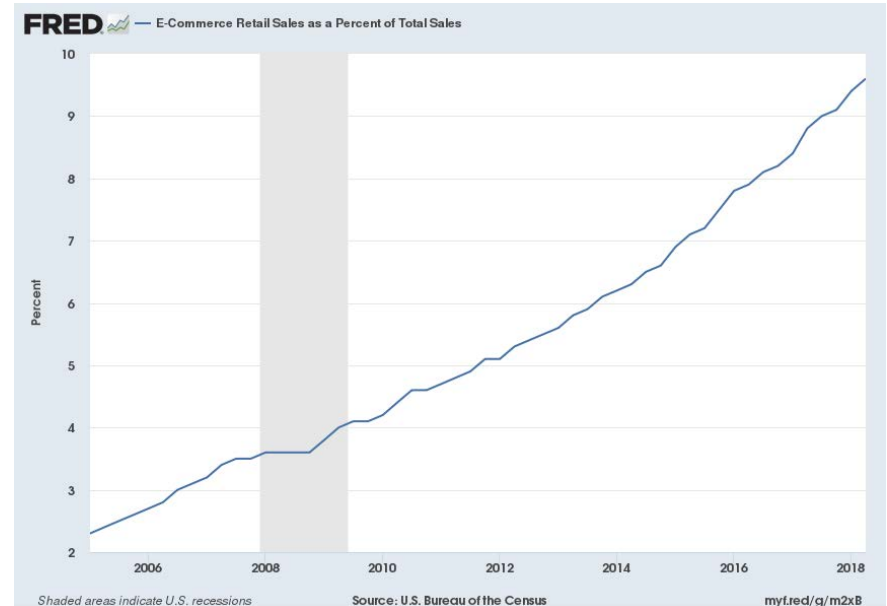
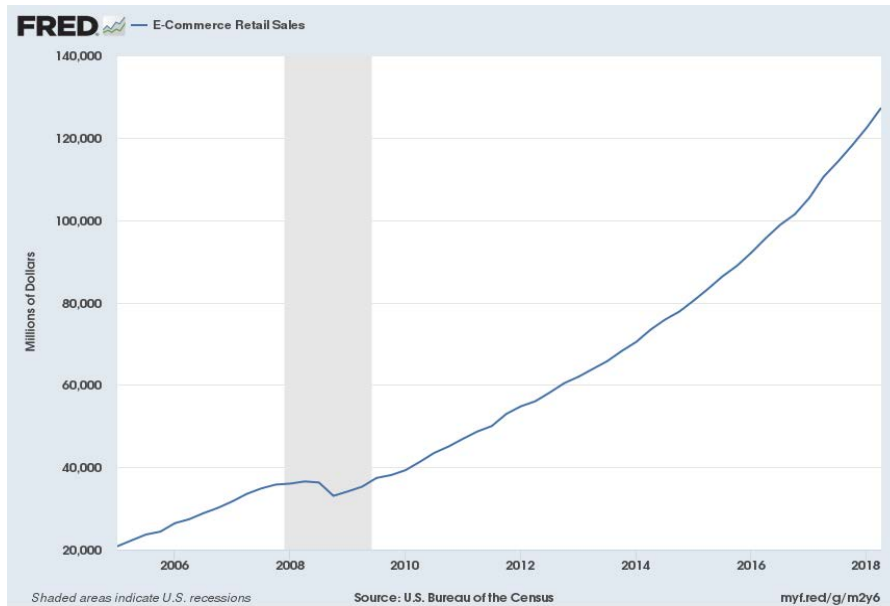


NOTES: Data are for 2016. We calculated the number of jobs and their share of sector employment that are associated with the production of exports subject to tariff retaliation, as announced by China on April 4.  
SOURCES: Bureau of Labor Statistics and authors' calculations.

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# 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





# PAGE ONE ECONOMICS®

RETURN TO ALL ARTICLES

November 2018

## 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<sup>1</sup>

### Introduction

### Low-Cost Carriers: Reintroducing Competition

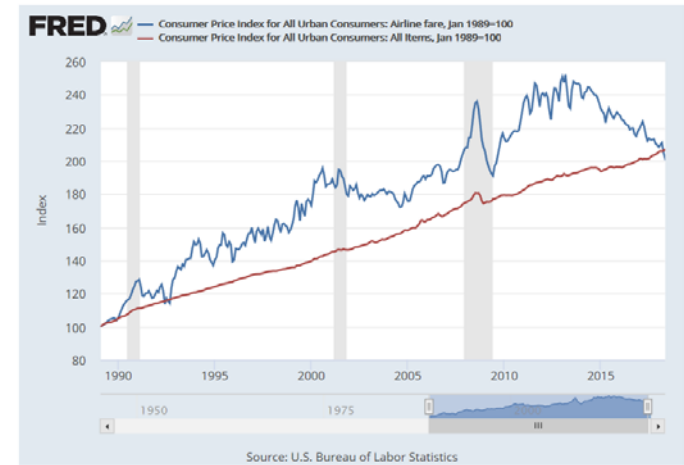


Figure 1: The Rise and Fall of Airfares

SOURCE: FRED®, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/CUSR0000SETG01>, accessed June 13, 2018.

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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