



# Well-Oiled Machines: A Three-Month Analysis of Economic Events Impacting the Transportation Sector

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Despite slow months in March and April, trucking appears to be in a healthy position in May. However, oil prices have had a much more severe effect on individual truck drivers than they have on larger trucking companies. More than 350,000 registered owner-operator truck drivers face an economic crisis as fuel prices impact their diminishing bottom lines.<sup>13</sup> As the market shifts from a pro-trucker market to a pro-shipper market, we may see a direct correlation between the prices of oil and the number of owner-operators who transition to either selling their trucks to become company drivers or lease their services to a larger fleet.<sup>14</sup>

## 2. Two if by Sea

To dip our toes into another sector, vessels were placed in the Peaking/Slowing category in March, with the Index's position suggesting that vessel investment growth was unlikely to accelerate over the next two quarters.<sup>15</sup> In April, vessel performance descended further into Weakening/Struggling, meaning investment growth would continue to slow over the same timeframe.<sup>16</sup> However, May saw vessels catapult into Expanding/Thriving with a 3.2 percent increase in investment from last year's levels.<sup>17</sup> The Index noted vessel investment growth could rebound over the coming six months.<sup>18</sup>

March, April, and May show differing levels of investment success within the maritime industry. With gas boats already costly to operate, the recent spike in gas prices has only added to the overbearing costs for many vessel-owning businesses. While high demand continues to defend the vessel industry against rising costs, these past few months have led to an increased focus on legislation to provide further aid to vessel owners and their businesses. On the local level, concerned citizens and politicians have pursued state-level change in the form of mitigating gas taxes, exemplified by Californians' recent efforts to temporarily suspend the state's 51 cents per gallon gas excise tax.<sup>19</sup> Georgia is looking into similar legislation<sup>20</sup>, and Maryland recently enacted a law suspending its 36 cents per gallon fuel tax.<sup>21</sup>

Nationally, oil prices have led to renewed calls to repeal the polarizing Jones Act. Passed in 1920, the Jones Act heavily restricts domestic transportation of goods to only those vessels that are U.S.-flagged, U.S.-built, U.S.-crewed, and U.S.-owned. While there remains ample U.S. crude oil suited for U.S. refineries, the protectionist Jones Act further hinders the ability to

transport this fuel through the nation's waters.<sup>22</sup> The CATO Institute has called on the Biden Administration and Secretary of Defense to waive the Jones Act, and Representative Ed Case (D-Hawaii), Representative Scott Perry (R-Penn.), and Senator Mike Lee (R-Utah) have recently brought further attention to the Act, with some calling for its total repeal.<sup>23</sup> However, the interests this Act has protected for over a century are deeply prized and deeply rooted. The American Maritime Partnership recently wrote President Biden as well, explaining why it must remain law to protect American industry interests.<sup>24</sup> Regardless of ideology, the recent rise in political dialogue surrounding the Jones Act is intrinsically tied to the recent spike in oil prices. While demand may continue to bolster vessels from a macroeconomic perspective, the next few months present a fascinating opportunity to watch the momentum, or lack thereof, of these recent political developments.

### 3. Three if by Air

To round out our transportation methods, the aircraft sector was placed into the Peaking/Slowing category for March, with the Index indicating aircraft investment growth had peaked and was unlikely to improve in the coming two quarters.<sup>25</sup> In April, while there was slight improvement to land aircraft on the fence of Peaking/Slowing and Expanding/Thriving, the Index repeated that investment growth would likely remain weak for the next six months.<sup>26</sup> The sector fell further in May with placement into the Weakening/Struggling category of the Momentum Matrix. The Index noted civilian aircraft exports had decreased by 4.3 percent, and new aircraft defense orders fell 26 percent in March.<sup>27</sup> In line with March and April, the May Index similarly held firm that aircraft investment growth would likely remain weak over the coming two quarters.<sup>28</sup>

These numbers make some intuitive sense from an individual consumer's perspective: higher oil prices lead to higher ticket costs, and in an inflated, down-turning economy with another coronavirus wave approaching, individuals would choose not to fly. Indeed, from a 30,000-foot perspective, if many Americans choose not to fly, the already fragile and recovering airline industries would bear an even heavier burden.<sup>29</sup> However, as with trains, trucks, and vessels, sky-high demand may provide solace to the aircraft industry, for even with airfares at new heights, travelers still appear ready to fork over the money to fly after spending the last two years shuttered indoors.<sup>30</sup> The question remains why the aircraft sector has not rebounded like vessels and land transport, sectors that face similar obstacles.

### Conclusion

Oil prices, inflation, supply chain backlogs, coronavirus recovery, and sky-high demand for transportation assets paint the portrait of the current economic climate. While aircraft are in the riskiest position within the Momentum Matrix, it is by no means catastrophic, and equipment finance sectors, in general, have been fairing quite well over the past three months. This is, to some extent, counterintuitive as a reasonable person could have predicted that an industry heavily tied to fuel might be struggling in today's economic climate. Such a prediction could have been correct, but that is not the case. Equipment finance, by and large, has a strong grip on the wheel despite the challenging economy that surrounds it.

Further, this article highlighted a handful of the interesting sector-specific narratives this economy has ushered in: how demand currently trumps incredibly high gas prices; how owner-operators of trucks may migrate towards corporate sanctuary; and how the Jones Act is once again under political crosshairs. These narratives will continue to spin lives of their own, even as it relates to growing calls for action that may one day drastically limit our dependence on oil altogether. Indeed, the recent spike in oil prices has led to renewed publicity surrounding the viability of green initiatives in transportation sectors. The use of clean vehicles in fleets is accelerating. Hydrogen-powered trains may continue to sprout across the globe. The importance of net-zero emissions via sustainable jet fuel appears to be growing across the aviation industry.<sup>31</sup> Perhaps these many dialogues will once again fade into the background when oil prices lower to more acceptable levels. But one thing remains clear: if these past three months are any indication, equipment finance will continue to adapt to any challenge that comes its way, and further storylines of interest will continue to emerge, many of them firmly tied to equipment finance and its well-oiled machines.

#### Footnotes

<sup>1</sup> <https://www.elfaonline.org/knowledge-hub/mlfi-25-monthly-leasing-and-finance-index/view-mlfi/monthly-leasing-and-finance-index-march-2022>

<sup>2</sup> Id.

<sup>3</sup> <https://www.leasefoundation.org/industry-resources/monthly-confidence-index/>

<sup>4</sup> Foundation-Keybridge Equipment & Software Investment Momentum Monitor - Equipment Leasing & Finance Foundation ([leasefoundation.org](https://www.leasefoundation.org))

<sup>5</sup> PowerPoint Presentation ([leasefoundation.org](https://www.leasefoundation.org)) (“March Matrix”)

<sup>6</sup> PowerPoint Presentation ([leasefoundation.org](https://www.leasefoundation.org)) (“April Matrix”)

<sup>7</sup> Foundation-Keybridge Equipment & Software Investment Momentum Monitor - Equipment Leasing & Finance Foundation ([leasefoundation.org](https://www.leasefoundation.org)) (“May Matrix”)

<sup>8</sup> March Matrix

<sup>9</sup> April Matrix

<sup>10</sup> May Matrix

<sup>11</sup> Id.

<sup>12</sup> Id.

<sup>13</sup> <https://oilprice.com/Energy/Gas-Prices/Truckers-Are-Facing-An-Existential-Crisis-As-Fuel-Prices-Soar.html>

<sup>14</sup> Id.

<sup>15</sup> March Matrix

<sup>16</sup> April Matrix

<sup>17</sup> May Matrix

<sup>18</sup> Id.

<sup>19</sup> <https://www.thelog.com/news-departments/here-is-what-boat-owners-have-to-say-to-the-rising-gas-prices/>

<sup>20</sup> <https://www.wsbtv.com/news/local/atlanta/exclusive-gov-kemp-looking-extend-gas-tax-suspension-its-right-thing-do/5SC63P54A5CAJF5XRR72JQATIQ/>

<sup>21</sup> <https://www.washingtonpost.com/dc-md-va/2022/03/18/maryland-gas-tax-break/>

<sup>22</sup> <https://www.cato.org/blog/russian-oil-table-jones-act-serves-barrier-using-domestic-supplies>

<sup>23</sup> <https://www.foxbusiness.com/economy/lawmakers-reforms-jones-act-gas-shipping>

<sup>24</sup> <https://gcaptain.com/american-maritime-industry-fights-back-against-jones-act->

misconceptions/

<sup>25</sup> March Matrix

<sup>26</sup> April Matrix

<sup>27</sup> May Matrix

<sup>28</sup> Id.

<sup>29</sup> <https://www.reuters.com/markets/europe/jet-fuel-price-surge-deals-heavy-blow-fragile-air-travel-recovery-2022-03-08/>

<sup>30</sup> <https://www.nytimes.com/2022/04/15/business/energy-environment/fuel-prices-travel-cost.html>

<sup>31</sup> <https://www.dallasnews.com/opinion/commentary/2022/05/10/high-oil-prices-might-give-sustainable-jet-fuel-a-chance/>