Tea Leaf

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Your guide to understanding today's economy and financial markets

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Travel Trash

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"You can't get corporate jets, you can't go take a trip to Las Vegas or go down to the Super Bowl on the taxpayer's dime"…noted President Obama last February in response to a question about financial institutions that had received TARP money holding lavish events…

…fair enough and quite appropriate

The problem is that additional Congressional criticism of companies and industry associations holding meetings or events, especially in Las Vegas or Reno or Orlando or in Hawaii, etc., has added tens of thousands of people to the unemployment roles. These are companies and associations that never received any government funds, but want to avoid any chance of criticism from the Congress and the media…

…those former hotel bell staffers, those former hotel and restaurant workers, those former flight attendants, those former cab drivers, those former travel industry employees of all types have suffered a one-two punch of 1) the "Great Recession" and 2) doing what is "acceptable" in the eyes of the imperial Congress.

Nearly 200,000 travel-related jobs were eliminated in the U.S. economy during 2008. Perhaps 300,000 or more positions will be lost this year. That equates to roughly 10,000 lost jobs per state…people who are now unemployed.

The point is that the "AIG effect"… wherein the insurance giant had a significant number of high-level executives travel to a luxurious California resort just a week after the Federal Reserve provided an $85,000,000,000 bailout…has had unintended consequences that have led to tens of thousands of job losses.

Did I mention that Congressional spending on overseas travel has tripled in the past eight years, or that Congressional members are allotted $500 per day for expenses, can travel in either first or business class, and have very limited accountability as to the purpose of the trip or who they met with?

A recent story in USA TODAY notes that Las Vegas, Palm Springs, San Francisco, and Hawaii have experienced serious declines in people traveling to their cities for meetings, including a 26% decline in Las Vegas. The same story mentioned that "safe cities" such as Denver and Dallas are seeing future bookings rise, as companies and associations try to stay under the Congressional radar.

Did I mention that Nevada's current statewide unemployment rate is 13.2%, the second highest in the nation?

The story also mentioned the "Katrina effect"…wherein New Orleans has benefited from companies and associations trying to steer business toward the city, with many attendees involved in community rebuilding while there. Detroit has also benefited from event planners promoting the city for meetings as a way to help the economy in a state that has seen total employment decline during EACH of the past nine years.

Other casualties of Presidential and Congressional criticism of business-related travel have been incentive programs within numerous companies. Wells Fargo was singled out earlier this year for Congressional and media criticism because a number of lower-to-mid-level employees had qualified for a few days at company expense in Las Vegas.

The National Business Travel Association notes that incentive programs are "two to three times more effective than cash at motivating employee performance." We all know someone, perhaps a family member or neighbor, who in the past had handled their job responsibilities professionally enough to quality for a perk from the company…

…no more, and what a shame

Did I mention that Congressional overseas travel has jumped by 50% since the Democrats took control of the Congress less than three years ago?

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Turning Around

After getting hammered during the past two years, the estimated net worth of the American household rose during 2009's second quarter. The total increased to $53.1 trillion, a jump of $2 trillion ($2,000,000,000,000, up 3.9%) versus the prior quarter's $51.1 trillion total.

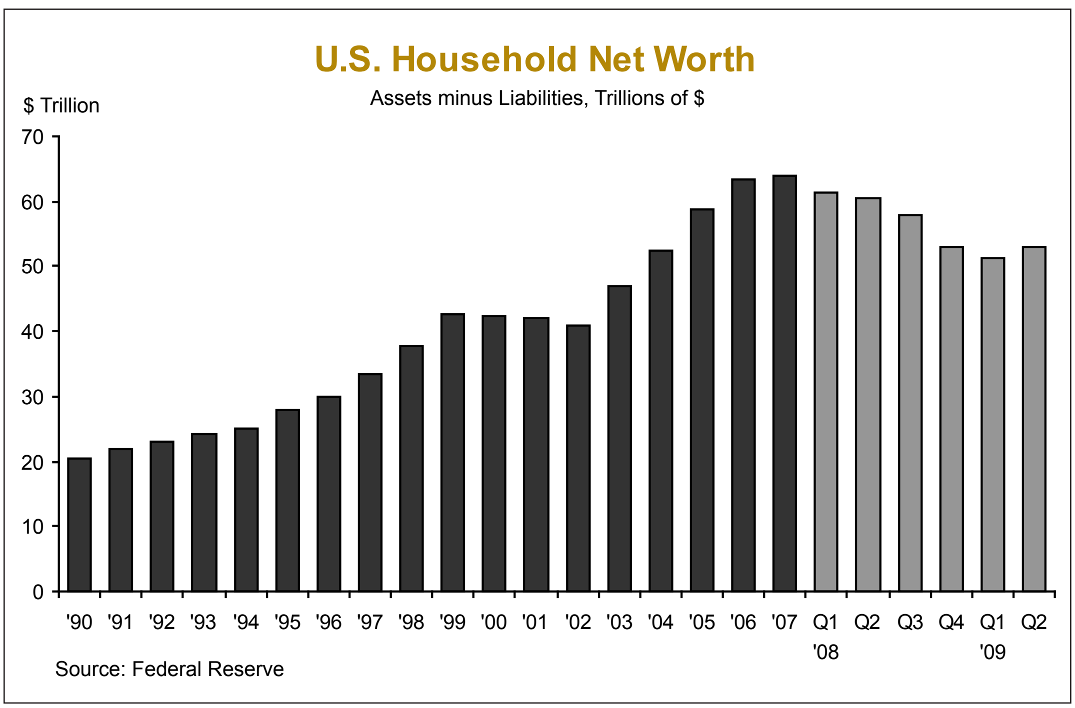
Net worth is derived from the Federal Reserve's quarterly flow of funds report. The total represents the difference between all household assets, including stocks, mutual funds, real estate, CDs, etc, minus all debts, including home mortgages, consumer debt, bank loans, etc.

The rise in net worth is a positive sign and will likely be followed by another gain during 2009's third quarter. Still, the $53.1 trillion total is 19% below the peak of $65.3 trillion during 2007's third quarter, just before the Dow average reached an all-time high of 14192.

The second quarter jump was driven by rising stock prices and modestly higher home values. Stocks owned by households rose an estimated $1.4 trillion in value, while real estate rose by $139 billion (up 1.8%), the first increase since 2006's final quarter.

In addition, households cut down total debt at a 1.7% annual rate during the second quarter, with reductions in both mortgage debt and consumer credit. Consumers have been aggressive, where possible, in paying down debt during the past two years in response to serious recession, painful job cuts, and higher levels of anxiety. The estimated savings rate reached 6.0% in May, the highest level since 1998.

Jeff



"TEA"ser

I handed in a script last year and the studio didn't change one word. The word they didn't change was on page 87.

—Steve Martin (introducing the best adapted screenplay at the 2003 Oscars)

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