THOUGHTS FROM THE FRONTLINE

The Inflationista Illuminati, Part 2

By John Mauldin | March 22, 2025

Propagating Price Pressure Plotting (Part 2)
The Fed Is Behind the Curve
Dallas, DC, and We Are Back on the Moon!

The theme among so many writers seems to be “vibe shift.” And indeed, there is a concern the economy is slowing and may even be in a recession. That is certainly what today’s writer and my friend, Danielle DiMartino Booth, points to in this second part of her data-driven inflation analysis, which I share below. She believes the mainstream media, both financial and otherwise, is missing the fact that inflation is going to come down faster than most analysts expect—including those at the Federal Reserve.

I have some comments but I will save them for the end of the letter. Let’s jump right in.

Propagating Price Pressure Plotting (Part 2)
by Danielle DiMartino Booth

(Click here to read Part 1)

A CNN poll released last Wednesday revealed that 51% of Americans support Trump's immigration policy, 7 percentage points higher than his first term. Meanwhile, 56%, disapproved of his handling of economic issues. In particular, 61% objected to the ratcheted-up tariffs against Canada, Mexico, and China. What would Joseph Pulitzer make of the media's coverage of Trump's first 50 days? In 2017, *The Wall Street Journal's* Peggy Noonan was awarded the eponymously named prize for her February 2016 stark observations on the "rise of the unprotected," who went on to elect Trump. As she masterfully captured in the written word, "The protected make public policy. The unprotected live in it. The unprotected are starting to push back, powerfully."

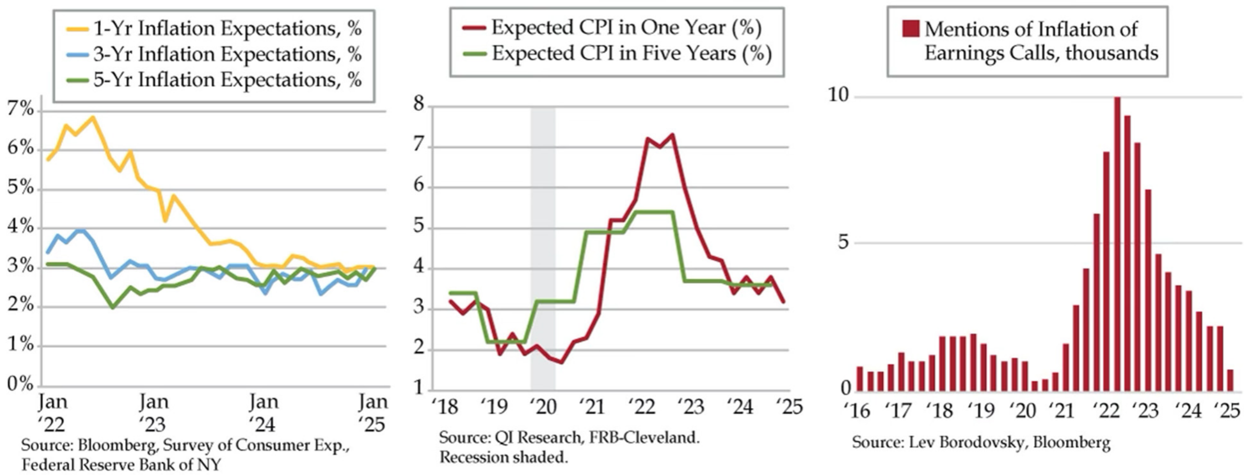
It would seem the "push back" has yet to succeed. Flagbearers of the protected—the compromised media and DC statisticians—continue to prey on the unprotected. Engineered to subterfuge the new administration, the coordinated Tariff Terror Campaign is paralyzing households with fear that inflation will imminently re-rear its ugly head. The greater risk is that the ongoing private sector recession will be amplified by the actions being taken by the Department of Government Efficiency.

While unheeded and underreported, Corporate America has unequivocally rejected the hypothesis that they can forcibly will consumers to pay for the higher costs they must shoulder, fueled as they've been by stockpiling ahead of tariffs. The economic reality is that stagflation is only possible if higher costs can be passed through. If that's not the case, the extent to which tariffs increase costs will be manifest in margin compression. The deeper into the bottom line the cuts go, the more business investment will suffer and the higher the need to offset by reducing headcount further. The underpinnings of the current dynamic form the classic basis for an adverse feedback loop that, once in motion, will only further depress purchasing power and emerge as disinflationary pressures. Despite growing evidence that this vicious cycle is taking hold, the fact that the rate of inflation is falling rapidly is wholly absent from the de facto propaganda operation.

US executives are the wisest to job insecurity and the threat they pose to their firms' pricing power because they're personally driving the acceleration in layoffs. On that note, not only does the Cleveland Fed have an excellent real-time alternative to the imputation of Owners' Equivalent Rent, but the Fourth District also tracks C-suite occupants' perceived price pressures on a quarterly basis. Its website describes the metric: "The Survey of Firms' Inflation Expectations is a large quarterly representative panel of firms in the manufacturing and services sectors that was created to measure inflation expectations of chief executive officers in the United States. Each quarter the survey captures respondents' beliefs for expected CPI inflation over the next 12 months. Once per year it asks about beliefs for average CPI inflation over the next 5 years, CPI inflation over the last 12 months, the Federal Reserve's inflation target, and the probability that CPI inflation over the next 12 months will exceed 5%."

As you can see, reflecting data released February 10, CEOs' one-year expectations have drifted down to 3.2% YoY, the lowest since the middle of 2021. In the meantime, five-year expectations have basically flatlined in recent years and reverted to where they were just before the pandemic hit. In perhaps the most telling reflection of firms' lessened concerns on inflation, the flipside of which would be heightened anxiety about pricing power, mentions of "inflation" on earnings calls are lower than what they were in 2019.

Inflation Expectations Differ Vastly Across Entities Conducting the Survey

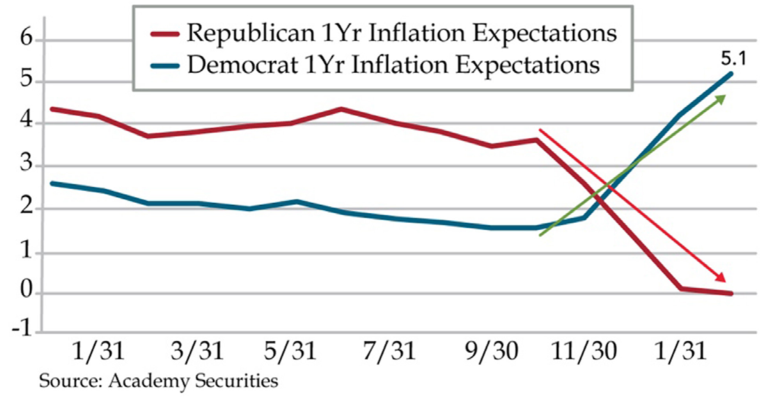


Source: Quill Intelligence

I dare say politics is also acting as an influence on inflation expectations. My good friend, Academy Securities' Peter Tchir, ahem, questioned what he called "the University of Michigan **CON**sumer **CON**fidence data," which startled markets with the news that one-year inflation expectations rocketed from 3.3% to 4.3%. Tchir was right in calling attention to what can kindly be called spurious survey methodology:

"I have no idea how UMich comes up with an average of 4.3. Nor do I really care… the fact that Republicans are expecting 0 and Democrats are looking for 5% seems insane. It is 'almost' like Republicans put in low numbers, hoping the Fed sees and cuts rates (or they just believe in DOGE and the president). It is also 'almost' like Democrats put in high numbers, hoping the Fed sees and doesn't cut rates (or they don't believe in DOGE and the president's policies). I understand that political views could influence inflation expectations, but this seems extreme!"

**Is Inflation Absent or Highly Problematic?
It Apparently Depends Who You Ask**



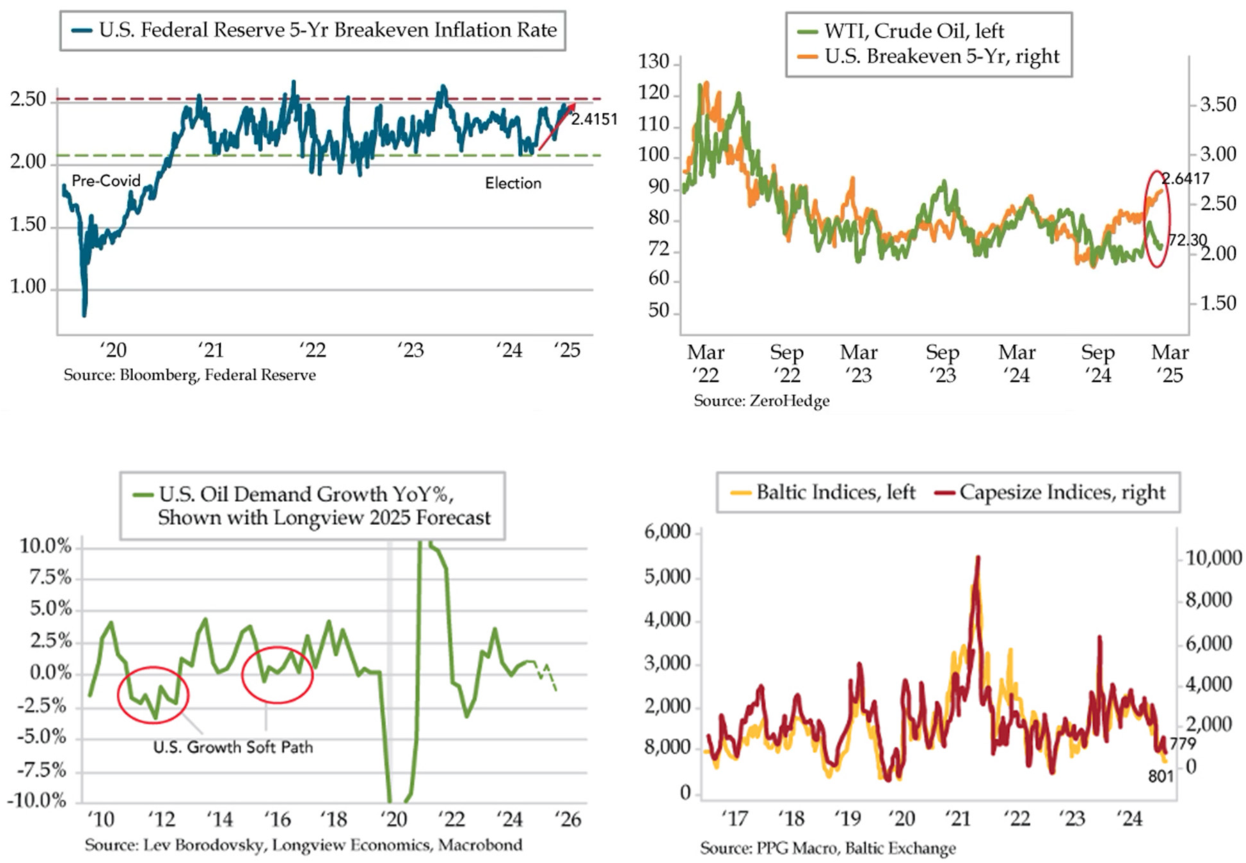
Source: Quill Intelligence

As for the opposite of the mainstream financial media, what I liken to the *National Enquirer* that exists to counter CNBC, I can't help but share this recent chart *ZeroHedge (ZH)* featured in a tweet. First, to the depiction via Bloomberg, which shows the tariff alarm ringing loudly thanks to the constancy of headlines claiming they will induce instantaneous inflation.

Again, why trifle with data when the narrative is so much sexier? To wit, the CPI fell from 2.5% YoY in April 2018 when Trump lobbed off his first trade war tweet to 2.3% in December 2019. More important, why highlight conflicts in the data when it's so inconvenient to do so? As *ZH* depicts, crude oil has magically divorced itself from inflation breakevens. Which metric is telling the truth?

Perhaps we should look to the growth in the demand for starters as it reflects the latter half of the Law of Supply & Demand. It was, after all, a slowdown in growth that acted as a drag on the CPI as Trump Trade War 1.0 did a number on global trade, as it was designed to do. Or perhaps, as PPG Macro's Patrick Perret-Green suggested, other issues "not getting attention." Not only are global growth rates falling, with Shanghai container rates hitting a 10-month low and set to fall further in Perret-Green's estimation, both the Baltic and Capesize Indices are near their lowest levels in years.

Fundamental Demand Signals Conflict with
the Rise in Market-Based Inflation Expectations



Source: Quill Intelligence

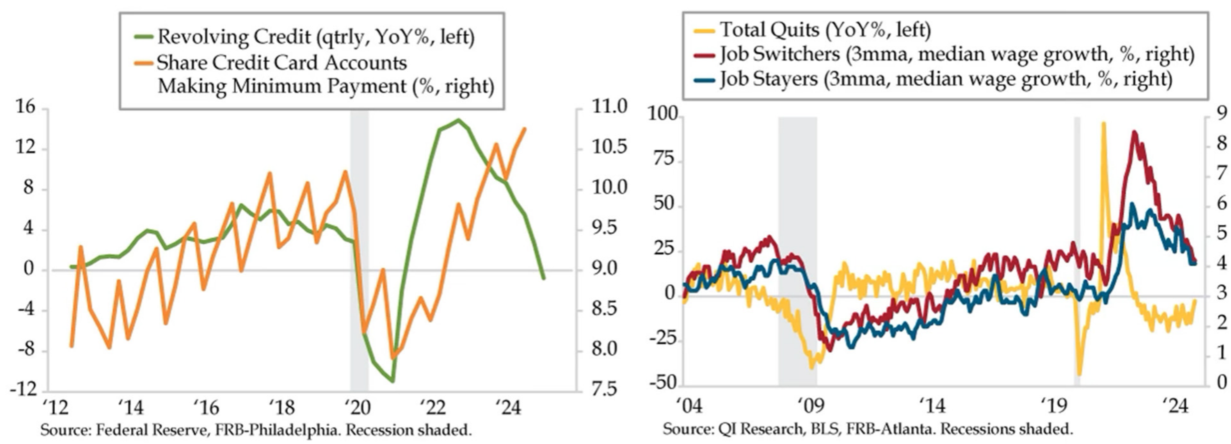
To punctuate the risk to pricing power, a QI Pro who does most of the shopping for his household shared this with me tonight: “I went today and could not believe what I saw. A lot of the liquor, beer, and wine had massive discounts. Ditto for nonessential items. This is the first time ever I’ve seen markdowns across the board like this. I remember no traffic on the roads in 2008 and now this. I think it’s a huge sign that it is hitting NOW.”

The “it” that’s hitting now is the plain-to-see slowdown that’s equally manifest in lending standards in a country that relies on households’ unfettered access to a constant flow of debt. To punctuate his point, the client added two graphs—one showing the yawning and increasing gap between the S&P 500 and its components’ free cash flow and the latest graph of auto loan delinquencies, which he described as “being on a tear.”

One can only imagine how the data will evolve in the coming months given the starting points as of 2024's third quarter were record-high auto loan and mortgage refinance rejection rates at series highs in New York Fed series dating to 2013. The difference between now and then is how the layoff cycle has evolved. And as is especially the case for student loan borrowers who miscalculated their chances of forgiveness, countless US households have piled on massive amounts of unsecured debt while taking what I call an "obligation vacation."

Judging from record ranks of borrowers, at 10.8%, making minimum credit card payments, the wherewithal to free up funds could prove more stressful than it's been in years. Imagine the shockwaves that are permeating the ranks of student loan borrowers seeing their FICO scores sink. Whether lenders tightening standards or borrowers reining in spending on plastic, or the most likely case—a combination of the two—revolving credit growth as of last Friday's release has tumbled into negative territory. At -1.5% on a quarter-over-quarter (QoQ) basis, the days of peak growth in credit card spending, which topped out at 4.2% QoQ in 2022's second quarter, appear to be a distant memory. It's no coincidence that Job Switchers' wage gains also peaked then, at 8.5% YoY, and have since settled back to being on par with Job Stayers, with the former at 4.2% YoY in January vs. the latter's 4.1% YoY. As DOGE does its handiwork, Job Switchers' wage gains may even fall below that of those who keep their gainful employment, reversing the nascent rebound in the Quits Rate.

Decreased Access to Credit Will Further Dissuade What's Left of the 'Quiet Quitters'



Source: Quill Intelligence

Regulators have begun to sound the alarm about delinquencies climbing the credit score ladder to prime borrowers, a byproduct of deeper job cuts in the ranks of middle management and executives vis-à-vis the 2019 growth scare. The white-collar recession will hit home most for those with the biggest student loan balances who've now had to begin making those payments again for the first time in five years.

Compounding the strains on household budgets, we've now entered the cyclical part of the layoff recession with an atypical lag. After a January reprieve when job cut announcements were a relatively tame 80,336, MacroEdge is clocking nearly 124,000 job cuts as of February 12 at the month's current pace. Adding to the tensions are more than 2,800 store closures that have hit the headlines thus far in 2025; this compares to about 7,300 for all of 2024 and estimates suggest the full-year tally will eclipse 15,000. And finally, bankruptcies have run off the rails to start the year as Bloomberg's tally of large bankruptcies (liabilities in excess of $50 million) has hit 23 compared to the 14 that had been announced through the same period in 2024.

Workers who are "Not in the Labor Force, Want a Job, are Marginally Attached, and Discouraged" have scaled up to 463,000, on par with the depths of the Great Recession. It stands to reason that job losses fanning out to lower-skilled workers have resulted in sharply rising earnings uncertainty among those with a high school education or less. This is the same cohort that will be most prone to being forced to work multiple jobs, the numbers of which are also busting through post-pandemic highs to nearly nine million, a fresh record.

The White-Collar Recession Is Spreading to Rank & File Workers

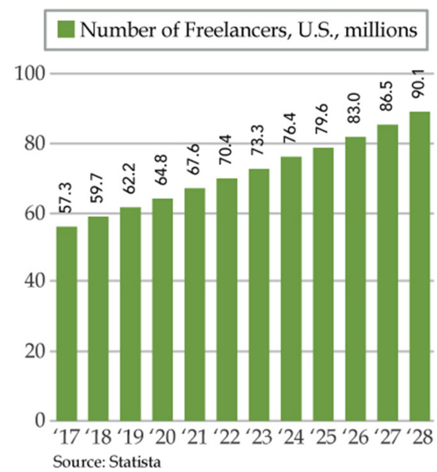
Source: Quill Intelligence

Into this economic breach steps demographics. Though we've no idea of the scale of job losses to come from Musk wielding his chainsaw, we do know that every public sector job loss will be a drag on aggregate income and thus further depress pricing power. As is the case with public sector job cuts, decreasing the deficit is also de facto disinflationary.

Consumers will also be less inclined to spend as initial jobless claims begin to move up after a prolonged period of quiescence since the economy reopened. The chief driver for artificially repressed unemployment claimants has been the gig economy. But it's increasingly apparent that this prop to income is dissipating. Estimates suggest we'll get to 90 million "freelancers" in the next three years, but at what cost? The best that can be said for the graph below is that there will inevitably be trade-offs. While the average Uber driver can still eke out $500 a week, they've had to work more hours to stay above that water line. The next highest-paid gig workers—a driver for Amazon Flex—saw their 2024 gross pay jump by 18.1% to $413 a week. To get that, though, they were "rewarded" with a 20.4% increase in their workday.

Little wonder that these underemployed continue to move back in with their parents, or in the case of increasing numbers, move in with their adult children. We saw stark evidence of how rapidly underemployment is growing in February's jobs data, with the U6 jumping a half a percentage point to 8.0%. Aside from the initial COVID shock, that's the highest level since October 2021 and the monthly delta was the 11th highest in 373 months of data, ranking it in the 97th percentile.

Nearly Half of America's Workforce Will Be Freelancers by Yearend



Avg. Weekly Gross Earnings/Work Hours Per Driver by Service, 2023 and 2024

Service	Avg Gross Wkly Pay 2023	Avg Gross Wkly Pay 2024	YoY Gross Earnings % Chg	YoY Earnings per Hour % Chg	YoY Work Hours % Change
Uber	$531	$513	-3.4%	-3.9%	0.8%
Lyft	$370	$318	-13.9%	-5.5%	-5.4%
DoorDash	$229	$240	4.8%	-2.8%	5.2%
Favor	$149	$155	3.4%	9.9%	-13.1%
GrubHub	$164	$175	6.6%	-1.0%	13.0%
Uber Eats	$170	$178	5.1%	-4.5%	2.1%
Instacart	$211	$194	-8.0%	-1.9%	-4.9%
Gopuff	$267	$244	-8.8%	-8.6%	-0.2%
Shipt	$238	$258	8.5%	7.0%	2.1%
Spark	$325	$323	-0.7%	-0.5%	-2.8%
Amazon Flex	$350	$413	18.1%	0.8%	20.4%
Roadie	$124	$154	23.8%	2.3%	17.2%

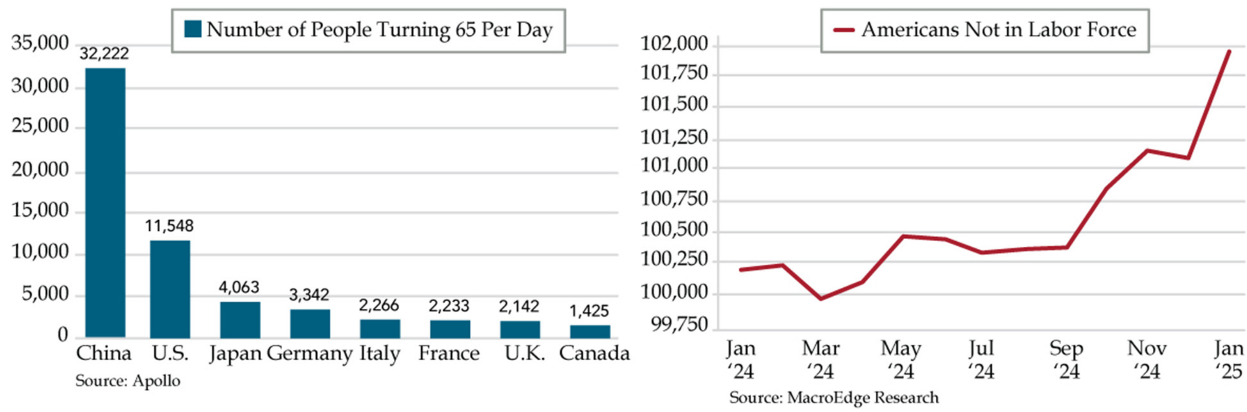
Source: Gridwise Analytics

Source: Quill Intelligence

As for the other damning demographics facing the US workforce, we can at least be comforted by the fact that the United States has it better than China, which is seeing nearly three times as many in its population turn 65 every day. I point this out because retirees naturally spend less than their in-the-labor-force peers, which is also inherently disinflationary. This said, at 11,548 per diem, retirees are a decided growth industry.

As a reminder, the median age of Baby Boomers is 70 and Americans over the age of 70 own 40% of the stock market and 25% of its residential real estate. To the extent they become aggressive in their "retirement planning" to shore up liquidity to earn a fixed income, this accelerating trend could also prove to be disinflationary for asset prices. For now, that's not become an existential threat. We'll know it, however, when Boomers see the same "it" as those noting the spread of discounting and other telltale signs of recession.

Rising Retirement is Inherently Disinflationary

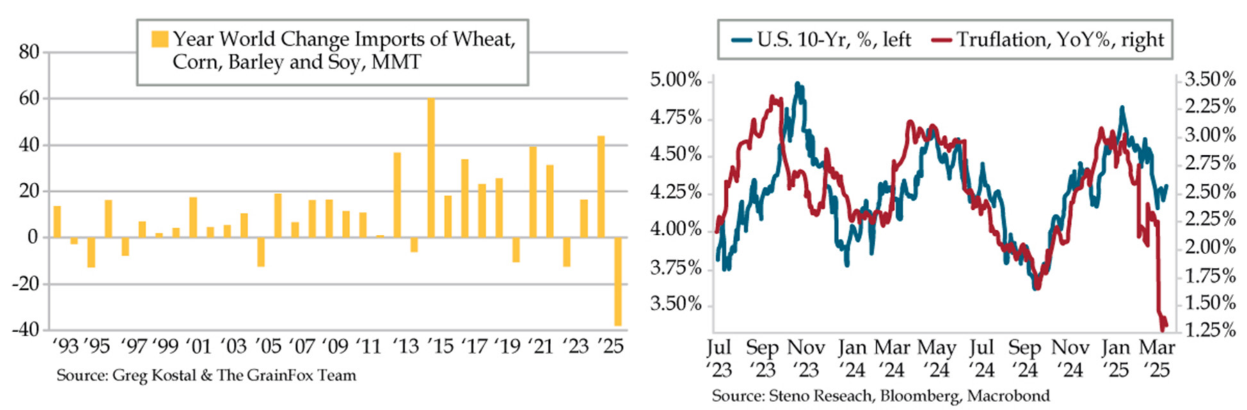


Source: Quill Intelligence

Contracting global trade always accompanies US recession. As for the specter of inflation being generated by tariffs, have a gander at today's graph characterized by Greg Kostal & The GrainFox Team as the "Most Important Chart from Yesterday's USDA Report." As Kostal warns, "The main storyline for 2024–2025 has been about demand, specifically how grain is being bought or less of it. Granted the 2024–2025 measuring year follows a strong 2023–2024 gain, but no market has a chance of sustained bullish tendencies without persistence of (i) sustained supply adversity, (ii) sustained money flow infusion. Doubtful, it'll be about demand. Maybe policies can help demand but tariff risks never will."

Note the decline in 2019 as a prescient precedent, the last time global trade contracted for a full year. The US economy would have landed in recession if not for COVID bailing it out with $15 trillion in government spending, an inordinate portion of which was monetized by the Fed.

Global Trade Taking It on the Chin as Disinflation Takes Hold



Source: Quill Intelligence

Trade the narrative. For now, the biggest hedge funds are dictating the direction of Treasury yields. But appreciate the message being broadcast by Truflation and the overwhelming macroeconomic evidence that what's left of pricing power is on borrowed time.

Make no mistake, the media doesn't like Trump one bit. That much is plain. And there are no doubt multiple justifications for criticism. Don't believe for a minute, though, that the narrative won't violently turn now that they've "reported" Biden's final CPI print in office, flattered as it was by a 25% increase in cumulative deficit spending from October through January. Even at Bloomberg, there was no hiding from today's headline that blared, "US Budget Deficit Hits Record $840 Billion Over Past Four Months." Taming this beast will too be disinflationary.

Indeed, on a three-month moving average, core CPI is down to a 3.6% YoY pace, within a hair of October 2024's 3.5%, as if mean old Trump had never called "tariff" the "most beautiful word in the dictionary" and "It's more beautiful than love, more beautiful than anything," on the campaign trail. Yes, tariffs can pressure input costs upwards. But as I've been carefully counseling my Twitter following (yes, that's how I'll keep referencing it until "X" loses the XXX-rated cryptocriminal bots that disrupt my feed 24/7), the presumption of stagflation necessarily and erroneously assumes purveyors of goods can pass along the tariff tax to end consumers.

But aggregate income has stagnated since September through the prism of inflation-adjusted average weekly income, what most call their "paycheck." The wherewithal to pony up the moola for higher prices can't be created by willing it to be so. As I've repeated until I'm blue in the face, purposefully mixing metaphors, "You can't squeeze blood from a rock, but you can squeeze the life out of margins." And that's exactly what the future holds and why FactSet revenue projections for Consumer Discretionary have fallen to 4.6% from 5.7% since December 31 and those of earnings for the sector to 6.5% from 11.4%.

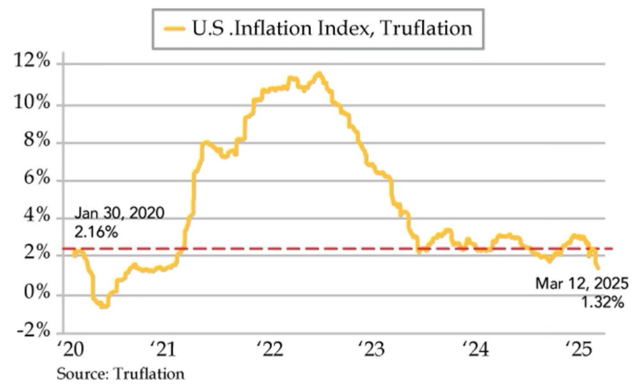
Adam Weishaupt once said that, "Nothing is more important than who controls the signs. To change the world, it is necessary to change the signs that are used to condition people." You need not be a conspiracy theorist donning a tin foil hat in the wee hours to appreciate the veracity of these words. Trade the narrative. Own the truth.

The Fed Is Behind the Curve

John here again. If you found Danielle's analysis compelling, I strongly recommend you sign up for her "Daily Feather" Substack here and also the "QI Pro" service here. Use coupon code "QIFrontlinePro" to get 20% off an annual subscription.

The Fed's new dot plots imply 2.8% PCE inflation by the end of this year combined with lower 1.7% real GDP growth. If they are right, the two rate cuts their forecast shows would likely be appropriate.

But if Danielle is right, and we are in recession or close to it, recessions are by definition deflationary. The latest Truflation numbers (a real-time analysis of 18 million data points) suggest inflation will dip closer to 1.5% in the next few months. That would mean more rate cuts than the dot plots currently show. And at the risk of a bad pun, it would mean the Fed has in fact lost the plot. They are behind the curve in their planning.



Source: Quill Intelligence

A main culprit is the funky way the indexes calculate housing inflation, which is currently almost nonexistent yet the PCE number still insists is 3%+.

Danielle noted in later pieces (she does come up with great data) that when University of Michigan Higher Unemployment Expectations crosses 60%, recession followed five out of six times. The one "failure" was basically already in recession. I am leery of consumer confidence polls for a variety of reasons, but they do measure the "vibe." As I said at the beginning, we appear to be in the middle of a full-on "vibe shift."

We will explore this more in the coming weeks as well as the weird economic policies suggested by some former Trump administration figures who are still mired in 19th-century economic thinking.

Dallas, DC, and We Are Back on the Moon!

I will likely be in Dallas within two weeks for a clinic opening, attending a longevity conference in DC and then meeting with members of Congress and their staffs about the need to address health and longevity issues differently. Mike Roizen will be there and hopefully Mehmet Oz will be able to join us. Frankly, extending life expectancy is more important than getting the inflation number right. At least to me.

I am in fanboy heaven. Longtime readers know I am a huge science fiction and space exploration fan. You should all know by now that a Texas company called Firefly recently put a lander on the moon. Tom Markusic, the founder of Firefly, engineer at NASA, SpaceX, and other space ventures, is currently staying in my home for two days and I get to hear his stories. He and his wife Christa tell amazing tales about Elon.

He has been coming to Puerto Rico because Puerto Rico has a massive and abandoned old Naval base that is perfect for a spaceport but even more important, has a massive runway facing east over the ocean. This is needed if you want to build a hydrogen-powered space plane that can take off and land from the base, which is Tom's vision. Now Puerto Rico just has to approve his proposal which would create tens of thousands of high-paying jobs and likely by the end of the decade the third- or fourth-largest spaceport in the world. If he builds his plane, which his track record says he can do, putting satellites into orbit and space travel will make a quantum leap. Hopefully we'll find out soon that the government will approve this incredible project, obviously benefiting Puerto Rico but humanity in general.

It is time to hit the send button. Next week we will return to our shorter-format letters. You have a great week and don't forget to follow me on X!

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