THOUGHTS FROM THE FRONTLINE

Soft Data Gets Softer

By John Mauldin | May 2, 2025

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Economic data can be soft or hard. “Soft” data reflects attitudes, expectations, opinions, and feelings. It’s a step removed from the “hard” data reflecting actual events. Soft data is still valuable because future expectations shape the hard data that follows.

Looking at the most recent soft data, I found myself consulting the thesaurus for a stronger word. Spongy? Limp? Squishy? Weak? Those all better fit what I see in business surveys and talking to my own contacts. Small business owners and big company CEOs alike are uncertain, often pessimistic, but only rarely confident about 2025. And some who expressed confidence just a few weeks ago are starting to swing the other way.

From a contrarian perspective, you could say this lack of confidence is encouraging. It’s darkest before the dawn, etc. etc. As Mr. Muddle Through Optimist, I’m sympathetic to that viewpoint. Unfortunately, what I see isn’t subjective. It describes real events at real businesses. Today I’ll highlight some of the real-world consequences this “trade war” is already producing, in the words of those who are experiencing them.

We're in the final days of preparing for the Strategic Investment Conference. It is actually one of my favorite times of the year, even though last-minute preparations can be stressful. Typically, we do short "prep" calls with our faculty to make sure that moderators and speakers can work together to give attendees get the best experience. I try to join these calls even if I'm not involved in the session because I learn so much.

This year has been particularly instructive. Opinions are strong. There is so much to discuss and so much data. We really are in a vibe shift. I've only felt this type of intensity from speakers back during the Great Recession and the COVID years.

Howard Marks is simply on fire. What perfect timing to have Mr. Rational Optimist himself, Matt Ridley, tell us where the world is going. So much on the markets, geopolitics, and our own political situation just comes together to give you clarity.

As you would expect, China and trade are big items. So is technology. This year you can click on the link below and actually see the agenda. You can watch the live sessions, review them at your leisure on video or read the transcripts.

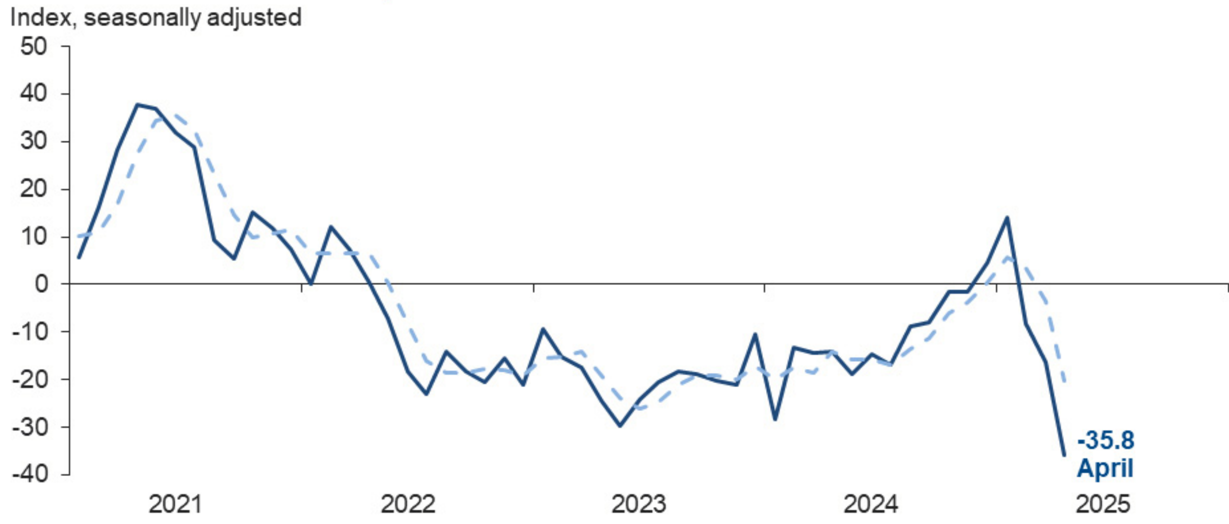
This is one SIC you do not want to miss. It starts May 12 so now is the time to register. Just click here to join me.

"It's Chaos Right Now"

The Dallas Federal Reserve Bank does monthly surveys of both manufacturing and service businesses in its district. While the data isn't national, it comes from the region where some of the strongest growth occurred in recent years. So, other things being equal, we would expect businesses there to be among the most optimistic.

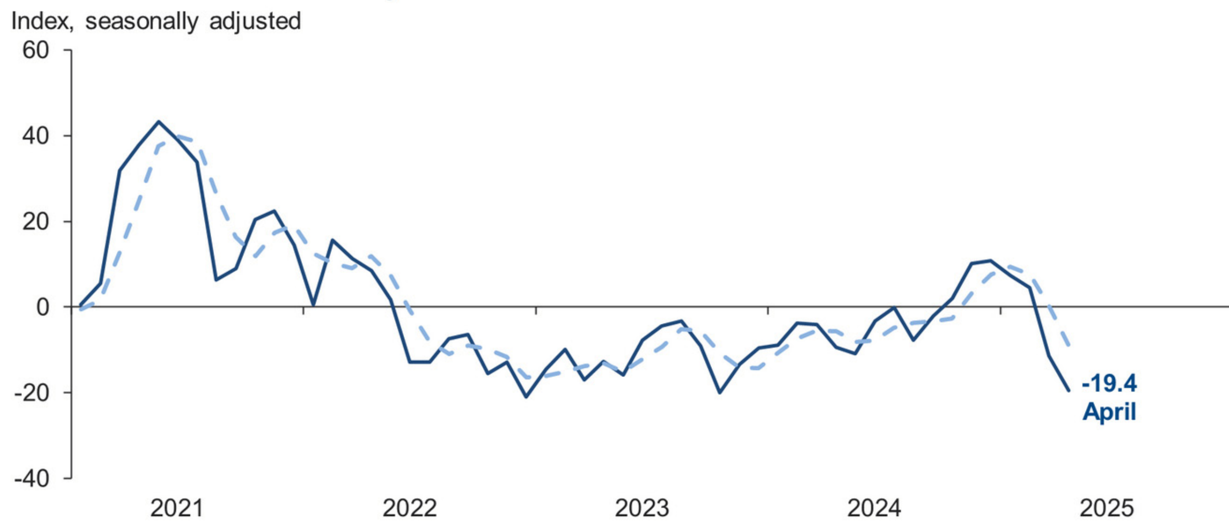
Respondents are asked "What is your evaluation of the general level of business activity?" vs. the prior month. They can answer either Improved, Remained the Same, or Worsened.

Here is how manufacturers responded:



Source: Federal Reserve Bank of Dallas

And the same question for service businesses:



Source: Federal Reserve Bank of Dallas

In both groups, reports had been improving for about two years but turned downward in the last three months. The change is worse in manufacturing but notable in service businesses as well. In both cases, it is already at or below the low points last seen in 2022.

Respondents are also allowed to make brief anonymous comments. Here's one from a trucking company.

> "[We are] devastated. We are a trucking company specializing in transporting international shipping containers, and there is no other word that captures what we are facing. The fragile balance that underpins the global equipment supply chain has collapsed. Ocean container bookings have plummeted by 64 percent, which means 64 percent of our business has vanished overnight. Without incoming containers, there is nothing to reload, nothing to export and no way to keep our trucks moving.
>
> "This loss of freight in the market will bleed into every area of transportation. I have already had to make the heartbreaking decision to lay off one third of my staff. Any further cuts would cripple our ability to operate at even the most basic level. At this point, we are staring down the very real possibility of shutting down entirely. Ten years of fighting to keep a company alive and people employed through a global pandemic, the freight recession of 2023–24, and now this."

If you're any kind of entrepreneur, you can feel this person's pain. You know how hard they worked to get where they are. Seeing it fall apart like this is devastating.

Here's another one from a furniture distributor:

> "Tariffs are making it difficult with all the quotes we have out to customers. Manufacturers apply them to us, but we are having a hard time going back to customers to add the tariffs, so we are eating them. Although, I am for [tariffs] for the long term."

That points to a key consequence of the tariffs. *Somebody* will pay the tax, but not necessarily the final purchaser. It might come out of the seller's profit margin instead.

Another one from a builder:

> "We have is high levels of anxiety as a result of the fast-moving changes in government restructuring and tariff policies. Although we are hoping for the best end results, the overall business environment is very volatile. It is very difficult to provide fixed price quotes for construction contracts. There is definitely an increased risk factor for contractors, owners and the architecture, engineering and construction industry."

Uncertainty can be manageable but still have a cost, in this case "high levels of anxiety" that cut into productivity.

To be fair, not all the comments were negative. This person thinks it will all work out.

> "I'm not too worried about the new tariffs. I think other countries will soon be negotiating with President Trump, and six months from now the national discussion will have moved on."

But comments like this one outweigh the positive spots:

> "There is really no way to predict anything accurately six months out or even six weeks out now for our industry due to the tariff and trade uncertainty. Carve-outs for large electronics businesses (cellphones and laptops) leaves small business burdened to deal with tariffs on our own, which are likely to cause delays, cancellations and early product obsolescence on existing products and orders. We have already had to turn around and refuse shipments because customers cannot afford the tariffs, delaying our ability to build, which will eventually lead to job losses.
>
> "If this continues for any length of time, many small companies are likely to be significantly hurt or even gone. **If we want to bring manufacturing back to the U.S., can we try not to kill the companies that can actually help do that before we get the chance? Maybe we can think about using a scalpel rather than a sledgehammer?**
>
> "The risk we face now is far greater and less understood than what we saw during the COVID shutdown. Consumers and businesses will limit investment and orders until there is some sense of stability, and we have already experienced this with smaller orders and delayed orders. It's chaos right now."

This reflects my own feeling. I want to bring manufacturing back to the US, too. But the right kind of high-end manufacturing, not T-shirts and low wage assembly jobs. We should be able to do this without hurting the companies who are already manufacturing here. The administration's sledgehammer approach is so far causing more harm than good.

I know some readers (I hear from you and truly understand where you're coming from) who passionately feel that we have to change the current trade imbalances. I get that. But I also worry about the small businesses that will be hurt and the jobs that will be lost in the meantime.

Impoverishing Policy

If you prefer we not do business with China, the following section may frustrate you. But it's important you understand the perspective of companies that source products from China for their customers.

Yes, there are businesses in China that are severely problematic. I don't think that we should be outsourcing critical medicines and medical supplies from a less than friendly country. But not everything from China is defense related or national security. This isn't a black and white issue.

For example, Scott Lincicome at the Cato Institute recently posted an in-depth interview with Rick Woldenberg, the CEO of Learning Resources, a Chicago-based maker of educational toys for young children. Some 60% of their products are made in China, so the 145% tariffs are devastating his business.

The first question: Why depend on China in the first place? Here's Woldenberg:

> "Why China? I would tell you that we followed the incentives of American law and the American economy. To compete in the most competitive consumer market in the world, United States, we have to have world best cost. So we went looking for a place where we could make the greatest variety of high-quality products at the lowest possible cost, so that we could expand as much as possible here.
>
> "And China was the perfect place to do that. China was a great opportunity. What I very often tell people is: but for China, we would not exist. So if you value what we do, you have to tip the hat to China because we're able to offer our products at a very low competitive price, which allows schools to buy them, allows families to buy them."

He also explained why moving production to the US just won't work, even with the latest and greatest technology.

> "We've looked probably on and off over ten years for manufacturing partners here at various times. There have been incentives .… We can print here and we can assemble here. But we've not found a way to manufacture here. In present circumstances, we've dug even deeper. And so we've looked at technology or automation solutions to see what percentage of our product line we could make here, looking at farms of 3D printers and so on (which I am not aware exist) for the kinds of things that we do. And we've determined that that's not viable. You can buy a gigantic 3D printer and print up parts to go in an airplane … but there's no way we've identified where we can make a competitive product that sells for $20, through automation or technology. To me, it's a closed door."

Faced with the new reality that Chinese manufacturing is no longer available, Learning Resources is trying to move its inventory to the US. That's a giant headache in itself.

> "Right now, because I think [manufacturing in] China's over at the tariff rates we're at, we're moving everything. And that's incomprehensibly complex, involving daily crises. "And it's darned expensive. Just to put it in simple terms, we had three years ago about 2,900 items that we made in China. We estimated this week that we have been paying between $4,500 and $7,000 per item to move it—simply the frictional costs of moving it from point A to point B. We have in that period of time moved about 460 items.
>
> "So you're talking about an expense, a total expense of, I don't know, $10, $15, $20 million just to relocate the supply chain, just to relocate it. It's not to get lower costs. It's not to be more efficient. It's not to be better. It probably will have higher costs and be worse. It'll be slower. It'll be less efficient. [Our alternate partners] probably can't do everything that we want to do before, and we'll still have to shell out $10, $15 or $20 million."

Woldenberg went on to describe how the new tariffs will affect prices. Read this part carefully; we are going to see it spread across the whole economy.

> "If you're paying 50 percent of your product costs in taxes (in the form of tariffs), you pay that the day it arrives in the country and then what if you sell a product six months later? You have to carry that as a borrowing for six months, and that can really mount.
>
> "That's one of the reasons why companies are feeling a strong need to raise prices now, because they pretty much have to raise the money to finance paying the taxes, because the taxes are paid first. Income taxes are paid after you make the money. **But tariffs are an asset tax. And so you pay them basically to go into business.**
>
> **"So we have to raise the prices sooner than later because we need to accumulate that money so we can spend it on tariffs. That completely screws up the cash flow of your business.**
>
> "This plan is a mass self-impoverishment plan. If I have to raise my prices 50 percent, 70 percent, or whatever ridiculous number it is, what I tell people is, 'You're going to be paying that much more to buy exactly the same thing. And this is going to happen across a wide swath of things that you want to buy: shoes, sweaters, sunglasses, power tools, you name it.'
>
> "The one thing I can promise you will not go up is your salary. So you have the same amount of money, just everything will cost 50 percent more. What does that mean? That means that your standard of living just dropped because you can't afford to buy what you could buy the day before. It's an impoverishing policy and it's so obvious."

Speaking of impoverishment, I recently saw a report about the fast-growing BNPL ("Buy Now, Pay Later") business. These services can be convenient for some people, but if all you want is to pay later, you can do that with a credit card. I suspect BNPL programs (Affirm and Klarna are two of the bigger names) mainly serve low-income people who can't get credit cards. LendingTree says 25% are using BNPL to buy groceries, up from 14% a year ago. And 41% had at least one late payment in the last year.

That's a warning sign about the consumer economy. And now we're adding all the tariff impact on top of it.

GDP Thoughts

I have been reporting the Atlanta Fed's GDPNow real-time forecasting model, which turned negative in February. Their final estimate, adjusted for a gold imports anomaly, showed a -1.5% GDP decline in Q1.

The Commerce Department's initial reading came out the next day at -0.3%. So the model turned out to be too pessimistic. On the other hand, it was directionally correct, and closer to the mark than the latest Blue Chip consensus of private economists.

The quarterly GDP reports consist of an "Advance estimate" a month after the quarter ends, then two updates. Subsequent data could change the -0.3% advance reading in either direction. But with that caveat, this one isn't so surprising.

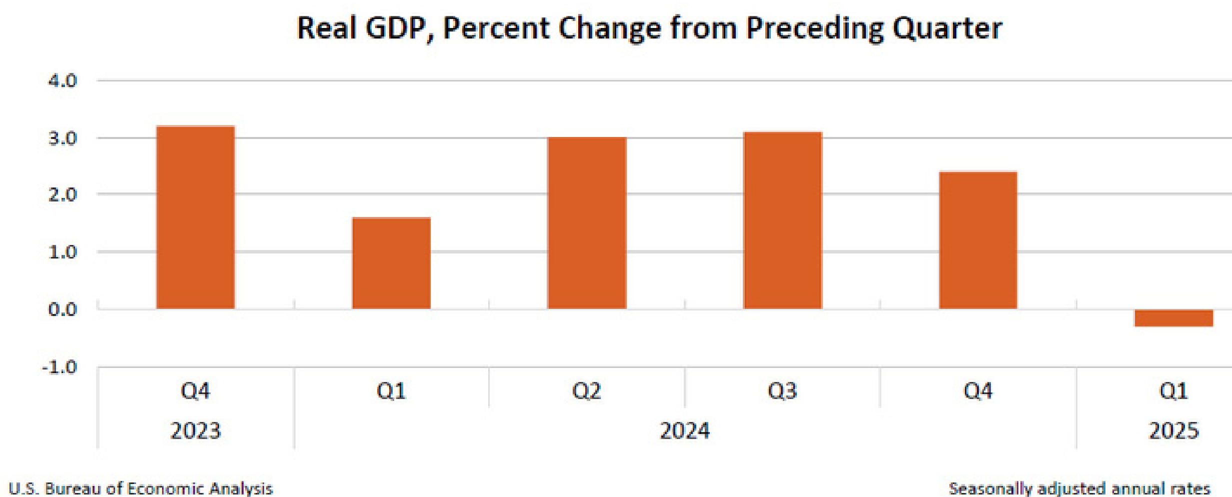
Everyone expected new tariffs once Trump took office, though not at the scale we've seen. The data suggests many businesses have been preparing for it. Dave Rosenberg (who's on the SIC agenda, by the way) noted how business capex shot up at a 22.5% annual rate, the highest since Q3 2020 as the COVID recovery began. Headline growth was negative mainly due to higher imports and inventories, both of which likely reflected tariff frontrunning. Ditto for consumer spending.

I always say debt is future spending pulled forward in time. Something like that is happening in this GDP report. A lot of the imports, capex and consumer spending are "borrowed" from future quarters.

Dave noted this:

> "On the consumer, keep in mind that the spending was centered in areas that are inherently non-cyclical in nature: health care (+4.1%), housing/utilities (+3.4%), and groceries (+2.5%). Volume spending on big-ticket durable goods actually sagged at a -3.4% annual rate, which was the steepest decline since 2021Q3. On the services side, the most economic-sensitive segment of all, restaurants and accommodation, peeled back at a -2.1% annualized pace as well. Residential real estate activity cooled off to a +1.3% rate from +5.5% in Q4, while nonresidential construction virtually stagnated (+0.9%) after a +2.9% fourth quarter rebound."

Again, this is preliminary, but it sure looks like the economy is making a sudden downshift from the previous five quarters.



Source: BEA

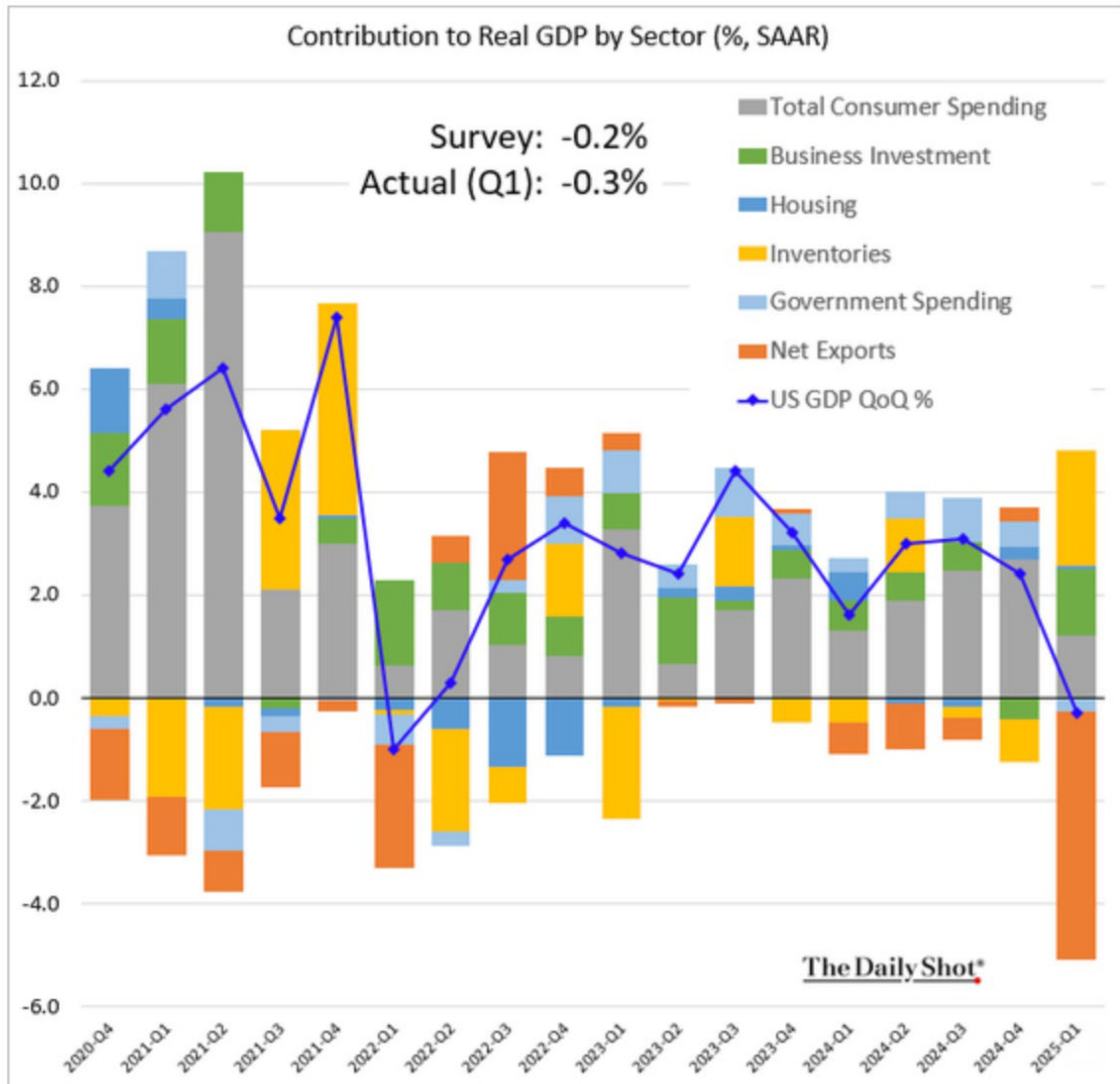
David Bahnsen weighed in on how the economy is slowing.

> “Supply chains are complicated things and any attempt for a portfolio manager with a macroeconomic focus to unpack the particulars of supply chains as if they were monolithic would be highly unsatisfying. That said, we know general high level timing things, filled with caveats as they are, and we can safely say the following:
>
> - Containers in transit have already begun delays and cancellations
> - Deliveries to ports are likely to see substantial declines by mid and late May
> - Trucking demand then ceases/collapses from there
> - Store shelves begin to seem emptier by early June
> - Layoffs likely follow the second, third, and fourth of the above steps
> - Then a recession call gets easier to make (if it hasn't been made already)
>
> “Resuming trade is the first domino that softens or reverses all the others. Capex and New Orders probably do not turn back on like a light switch, but the lights cannot even begin to fade up until the switch is hit, which cannot happen while trade is so diminished. This is the domain most worth watching.”

Let’s dig a little deeper and look at the components of GDP. The chart below shows clearly how increased imports (which in the chart show up as negative net exports) are the biggest single factor. As I said earlier, this is attributable to front-running the tariffs and to some extent the unusual amount of gold purchases.

A month ago, I noted that if we have a negative GDP in the first quarter, it would be a negative quarter **for statistical reasons**. Employment is holding up, consumer spending is holding up and business investment is actually doing well.

1. US GDP contracted in the first quarter, driven by a sharp surge in imports ahead of impending tariffs.



Source: Adam Tooze

Nonetheless, I think it is very likely second quarter GDP that indicate a not merely statistical recession. I also expect (hope?) to see significant policy changes and/or trade resolutions that will lead to a third-quarter recovery. Every country has an incentive to negotiate reasonable trade policies so that business can resume. China is no exception. The sooner this gets worked out, the sooner we can recover and move on.

That being said, two consecutive negative GDP quarters is a technical (but not official) recession. I think you can pretty much figure out what the political discussion will be around that fact. Was it a real recession or a statistical recession? If the third quarter turns around, as I expect, both sides will have an argument. While it is an interesting economic anomaly to us econ wonks, I will choose not to participate in the political back and forth.

American businesses are resilient. When the uncertainty about supply chains and future policy is removed, for whatever reason (from a business standpoint it doesn't really make a difference), it is highly likely the economy will recover sooner rather than later.

And *that* will become hard data.

Washington, DC, SIC and Dallas

I will fly to Washington DC Monday afternoon to attend a private symposium and then fly back to Dorado Beach, and more prepping for the SIC which begins the next Monday. After SIC I will likely go to Dallas where our new longevity clinic will be open.

The longevity conference in DC went well. I learned a lot and got to spend time with Mike Roizen and friends. The lobbying efforts in Congress by the group seemingly went very well. Longevity and aging are truly bipartisan, as they affect everyone. There is even a longevity caucus in the House. We tried to get members to focus on more funding for longevity in the NIH budget. Aging related issues get 0.5% of the NIH budget yet aging is the main factor in 70% of medical costs. Extending health spans 10 or 15 years, letting more people delay retirement if they wish, could reduce medical costs by many trillions of dollars, having a giant impact on the budget and federal debt.

I got to have dinner with old friends Steve Moore, Bill Walton and Mark Finn on Saturday as well as spend some time with Alpha Society members on Sunday. It was a good week.

And with that, I will hit the send button. You have a great week and seriously, don't forget to sign up for the SIC. I guarantee you it will pay big dividends!

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