ZANETTI FINANCIAL, LLC

Zanetti Monday Missive 2024.05.06

The Fed, Inflation, and Stagflatoin

Happy Monday Everyone!

This week Walt reviews last week's Fed Statements, how they affected Gold. He also looks at what the Fed said about "Stagflation" - it's almost comical, except that it just isn't.

Walt's video: https://youtu.be/Cv9Kr2B_Rbw

Below, Greg has given our readers another missive. Enjoy!

“Inflation is like toothpaste. Once it's out, you can hardly get it back in again."

~ Karl Otto Poehl, German Economist

Hello Everyone,

When your anecdotal day-to-day conversations merge with official business news, your ears should perk up. Government statistics almost always lag the stories you hear on the street first.

In short, believe your eyes and ears---and not the official narrative. Especially when it comes to economic statistics in an election year. :>)

Allow me a personal example.

One of our sons turned 29 last week. He lives in Everett, WA and is employed by Boeing. Not a bad job. Pays well. (Although it is expensive up there.)

Anyway, in the course of our conversation, he said, “Dad, I just came from the grocery store and it cost me $92! And all I got was…” and then he listed a few basic things most of us get on a weekly basis. Nothing extravagant.

I said, “What?! $92 for that?”

He replied, “It’s ridiculous. Chicken costs what a steak used to. It’s all my friends talk about.”

Coincidentally, our other son, (30 years-old and a techie guy near Seattle) called the next day. I relayed his brother’s story. He said, “Dad, he’s right. Mayonnaise is $7. I now go to the “last chance” part of the meat department to get the stuff that is about to go out of date. Usually, there’s just pork there. But sometimes you can get some chicken.”

Of course, my wife, Teresa, immediately went online and sent the boys some money---which they were grateful for. But they are also a little embarrassed to need money from mom and dad.

So, why spill family-news in the missive?

Because stories matter.

And because McDonald's is reporting the exact same thing… on a much larger scale.

Look at this headline from CNBC:

McDonald's and other big brands warn that low-income consumers are starting to crack

Ok, so who are the low-income consumers? Well, about 29% of Americans are now living just above the poverty line. (Oh, and 11.5% are officially below the poverty line. And, yes. If you add up those percentages, it isn't a pretty picture.)

Oh, if they're hurting, the middle class is feeling it, too. Moving on….

From CNBC again---America's largest companies are feeling "the pinch of higher prices," and, "broad based consumer pressures persist around the world."

Around the world? Hmm. If anyone would know something about global demand, it would likely be McDonald's. And, yes, I know McDonald's is suffering from higher beef prices---

and that consumer tastes are changing.

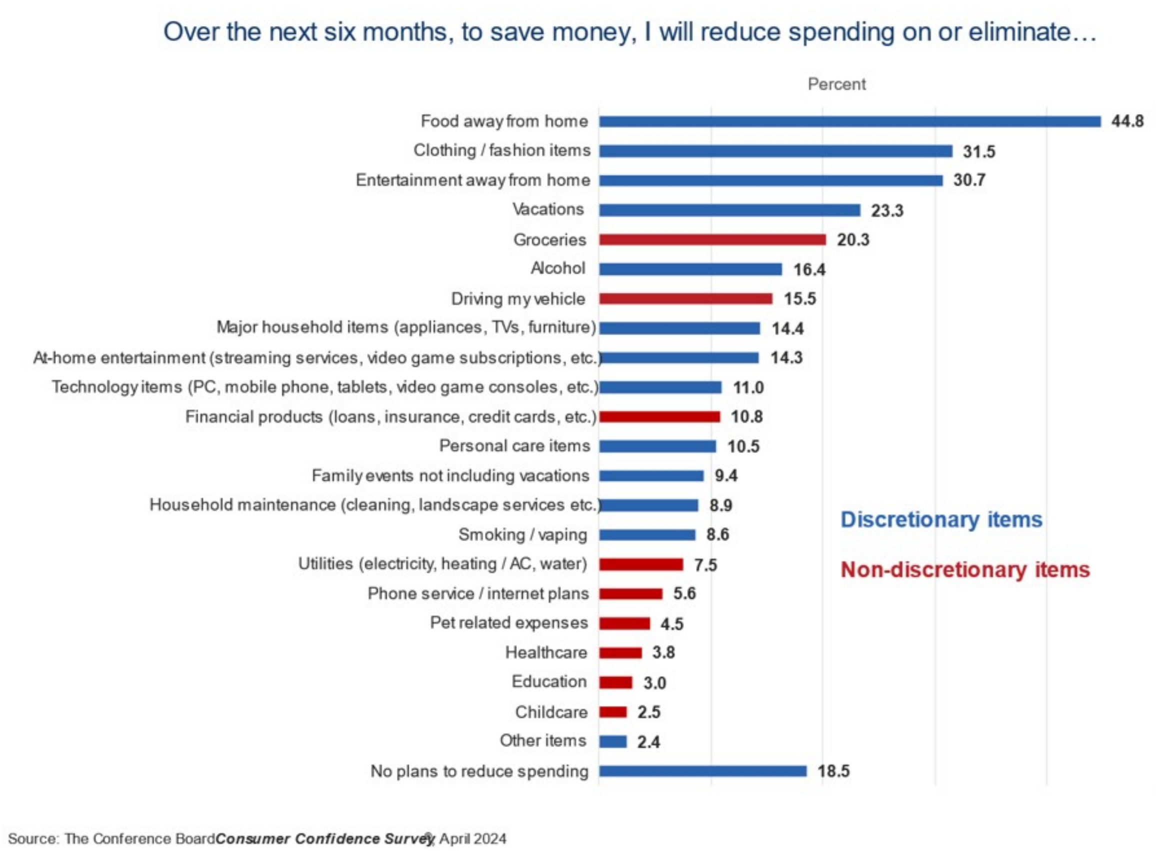
Still, the Golden Arches team is not alone.

3M (the Post-it Note guys), Nowell (Coleman lanterns and Rubbermaid stuff), Colgate, and Coca-Cola are echoing McDonald's warnings. All are issuing "soft guidance" based on "lower discretionary spending."

Lower. Discretionary. Spending. Hmm, again.

That means consumers (globally!) are spending more on groceries, shelter, and energy. Thus, they do not have as much money for "fun stuff" either.

Check out the Conference Board's most recent chart that addresses this...at least for the US.



But wait. There's more.

Corporate leaders are also postulating why this is happening. Here are their key take-aways:

- Wage-growth is not keeping up with rising prices. (Translation: Companies are giving raises, but they aren't enough to help workers over the inflation hump.)
- The companies themselves must also pay higher input costs for natural resources, energy, ingredients, etc. So, providing larger wage increases to workers is tough.
- Persistent inflation is forcing companies to raise their prices. But they can't go too high, because the consumer is already tapped out.
- Therefore, profits are getting squeezed.
- So, companies are looking for ways to cut costs, which can mean layoffs. Or, lower quality. Or, smaller packages. (Shrinkflation—same price but less stuff in the package.)

Can you see the vicious circle?

In fancy economic terms, this is called the price-wage spiral. So, let's connect this to our "official"--- and very rosy--- economic statistics.

To be fair, every administration will point to wage growth during an election cycle. "Because of my policies, workers are earning much more than they did under my predecessor." That part is almost always true. But it is also irrelevant.

If prices rise more than wages, then doesn't that mean workers' standards of living are falling? Therefore, who cares if wages go up 15% if prices rise 25%?

So, how do we get out of this brutal (and self-reinforcing) cycle?

Here are some options:

- A big recession can be endured. That normally washes things out.
- Or, the banks could lend a whole bunch of money at low rates to “stimulate” the consumer. Think back to our recent 0% interest rate policy. But that just delays the inevitable.
- Or, the government could artificially juice the economy by pushing money directly to the consumer. Think back to all that “free” Covid money. But that just causes inflation later.

So, let’s get back to election-year realities.

- Do either Team Red or Team Blue want a recession just before the election? Right. So, they’ll use every tool to forestall an “official” recession.
- Generally, are banks in the mood to lend a whole bunch of money as commercial real estate (CRE) prices are crashing and the economy is slowing? Probably not. There goes option 2.
- Will politicians authorize the printing of a whole bunch of money, pushing us deeper into debt, but claiming they are saving the day with “shovel ready” projects? Oh yeah, they just did that. :>)

And if you are now clenching your fists, feeling your blood pressure rise, and spitting through your teeth, “But that will just make inflation worse!” Then you would be right.

So, take a deep breath.

Try to get to that “acceptance stage” thing the psychologists talk about.

And then realize, “Hey, I can turn this in my favor.”

Hard assets do well during inflationary times. After all, even the Fed is admitting inflation is now “sticky.” Therefore, I know how to navigate this.

So, don’t sweat the occasional correction. The trend is our friend. And this trend is far from over.

Signed, Your How-Come-Hollywood-Has-A-Million-Anti-Hitler-Movies-But-None-Against-Lenin-Mao-Or-Stalin? Financial Advisor,

Greg

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