Jeff Snider: On Deflation and Soft Landing

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Erik: Joining me now is [Eurodollar University] founder Jeff Snider. Regular listeners already know Jeff is famous for his slide decks. New listeners, you're not going to want to miss it. So be sure to download the slide deck, you'll find the download link in your research roundup email. If you don't have a research roundup email, just go to our homepage macrovoices.com. Look for the red button above Jeff's picture that says looking for the downloads. Jeff, before we dive into the slide deck, which is largely about inflation, I want to come back to one of our previous conversations where you told us that prices were going up and they were going to continue to go up and there was going to be no inflation. And that, of course confused a lot of people. There's a few folks in our audience who know exactly what you're talking about. It's this distinction between consumer price inflation and monetary inflation. What's the difference but more importantly, why should we care about anything other than the price inflation, which is what affects the you know, how much money you got left in your wallet?

Jeff: Yeah, I mean, that's a great question to start with because the last part first, consumer price inflation as we define it as a supply shock, which we'll get into here in a minute, versus the monetary variety, which is really legitimate inflation, they look very different. Yes, the end result is the same in the short run. But how they work out in the long run could not be different. That's what we'll talk about today that when you have a supply shock situation, what mostly happens through historical examples is what you see is consumer prices will surge, the skyrocket right out of the gate, and they'll go way up there, which is you know, most people don't care. They understand they're becoming poor by the day but they'll surge really quickly and they'll stick around high rates of consumer price increases for you know, quite some time usually it's multiple months, maybe even a couple of years. But then, regardless of what happens in monetary policy, the Federal Reserve or Central Bank's, consumer prices will begin to slowly decelerate, and decelerate and decelerate, so that over time, and this is usually a multi-year process, all on their own consumer prices will reach a new equilibrium, they won't go back to where they were before the supply shock, but the consumer price increases will stop so that at least we reach a different stable equilibrium as far as prices go.

Whereas monetary inflation, which is real inflation works very differently. And that's where you get into sustained increases and sustained advances in consumer prices that go on year after year after year after year, like we saw in the 1960s and 1970s. The distinction we need to make here is that the supply shock version is not because of money printing or bank credit or anything of that kind of nature. It's instead, as the name implies, a shock to the economy that causes some imbalance between supply and demand, like we saw in 2020, where the only way to adjust and reconcile those imbalances is through prices. Where is the other type real genuine inflation is from a sustained increase in either money supply or credit supply to the economy. So in the modern economy, that's the banking system like we saw in the 1960s and 1970s. So it's a difference in where it comes from. And ultimately, it's a difference in how it ends and how it gets resolved.

Erik: Well, I'm going to argue that maybe the most important thing is figuring out whether this inflation that we've clearly been having is transitory as a lot of people, yourself included, have said it's because of supply shocks, it's the aftermath of the pandemic, this was to be expected. It's not a new secular inflation, then there's other people that are saying, uh, whoa, whoa, wait, it is a new secular inflation, it is a monetary inflation. What's going to be driving this is going to be less supply of crude oil, increasing energy prices that's going to transmit to the rest of the economy, it's going to be a whole monetary thing. Well, if you're not sure which one of those it is because there's too early in the story to know for sure. Then I guess what you want to do is you want to look at the inflation itself and say well, how do we characterize monetary inflation that might have long term secular impacts? And we might expect it to be persistent? How do we characterize that or differentiate or distinguish it from supply shock inflation, which we expect to be transitory? Is that the idea? And if so, in this massive slide deck, do we have some slides that are going to help us distinguish between those two things?

Jeff: Yeah Erik, we're going to look at historical examples of the supply shock variety and compare them to what we're experiencing today. And then we're already you know, two plus two and a half years into it, which is more than enough time to make some reasonable draw some reasonable conclusions here. But we knew ahead of time what this was going to be because the monetary system itself had told us from the very beginning, and we'll get into that too, where we get into what is the yield curve saying what is what are bond and interest rates telling us about actual genuine monetary variety of inflation. Because if we had seen something like the 1970s, the bond curves that we've seen over the last couple of years would not have happened. So the monetary system itself, just, you know, as a way of introduction here has been consistent from the very beginning that it was the supply shock variety, not the monetary variety.

Erik: Okay Jeff lets dive in then starting with page 3 which is the first chart in your deck here. Sell me on why you think this is a transitory after the pandemic inflation and not the beginning of another 1970 size secular inflation which is what I have been thinking it might be...

Jeff: When you look at the Consumer Price Index, let's start there for the United States. And what you see is that number one, it began in 2021, with the third helicopter dropped from Uncle Sam. And it happened timing-wise, during a period when the global supply chain was completely snarled, or COVID pandemic lockdowns, all the stuff that everybody's familiar with. So the timing there begins with really the supply shock getting going. But more importantly, is where we've been since the middle of last year. As you can see on slide three consumer price index, the year-over-year rate changed in the middle of last year, and has just performed this clear inflection that we see time and again, in the historical supply shock case. And I think I think there's a bit of a misunderstanding here, we talked about the supply shock. And as I mentioned earlier, they go roaring quick, they go really fast, consumer prices skyrocket because of the small economic imbalances that make the supply shock a shock. But then there's this impression that when you especially when you use the word transitory that the downside of the supply shock, consumer price increases should happen just as fast. And that's never, that's never really the case. So let's go to slide four, then look at the CPI from the 1946, ‘47, ‘48 supply shock case. And what you see is, again, the same kind of thing, it roars out of the gate first several months, and then it continues to accelerate and go really painful for quite a long period of time. And it isn't until almost two and a half years later that it starts to really, really slow down and shift. And this is where it gets important. What happens at the end of it.

And I've marked here, August of 1948 for a particular reason, because that's when the anti-inflation act of ‘48 was passed when, as you'll see on slide five, Fed chairman, Thomas McCabe went up to Congress and said, you know, this is what we got, we've got a supply shock. He said in the view, the pressure, the current goods, you know, continued shortages of many goods, limited capacity for increased output. All of the things that we're familiar with over the last couple years, they had that and then some in the late in the middle 1940s. So what he was saying is exactly what you would hear from Jay Powell today, if we don't do something about these consumer price pressures, and we don't do something in August of 1948, it's going to spiral out of control. And it's going to lead us into what would have then been or what it would have been at the time, great inflation, number one. So he was saying we need to get control of the banking system. He was arguing for Congress restoring the Feds power to raise the reserve requirement like they did in 1937, to horrific effect. And he actually got it. The Congress relented, they gave him limited authority, and they started to use it later on. But as you can see from the next slide, slide number six by then it was it was already a moot point because the supply shock had already worked its way out and that supply shock itself. Where did that come from? What was the exact what was the shock in 1946. And it was the economy in the United States, in particular, coming off of the World War Two parameters, Americans had saved up tons of savings throughout the Great Depression and and certainly World War Two where you couldn't really spend much money rental rationing and shortages and everything else. And as the government, you know, post-war era, Americans began to spend at a time when the ability of the American system as well as the global system to supply that demand was just constrained. Again, it sounds very familiar to what we saw in 2020, and 2021. So you had Americans deploying this massive amount of savings. But as soon as the savings started to run out in around the middle of 1947. That's when you already saw the shift in consumer price advances, they began to decelerate. But it didn't turn into the deflationary recession that we saw in 1948-49 all at once. It was a slow deceleration over the years, over the next year or so, that even if the Fed had never gotten its anti-inflation authority in 1948, it wouldn't have mattered because as you can see on page six, by then consumer prices were already falling off dramatically even before the Fed contemplated using its authority in the middle of 1948, the supply shot case was already reaching its conclusion, which in that particular instance, was a deflationary pretty nasty recession laid in ‘48 and 1949.

So if you go to Slide seven, we'll compare a couple of historical supply shock cases, including the one I just talked about 1946, ‘47, ‘48. Got that plotted against the 2020, 2021, 2023 case, as well as the next supply shock, consumer price outbreak, which was in June of 1950, really July 1950, with the start of the Korean conflict. And again, what you see, I think you can see it really clearly on the next slide. Number eight, is how these supply shocks like I said, at the beginning, they roar out of the gate, huge increases in consumer prices. And even though they're transitory, transitory doesn't mean a couple of months, it means in all of these cases, a couple of years. And you can see how closely our current case is following along with, especially the 1946, ‘47 and ‘48 case, but to a certain extent, 1950, and ‘51, ‘52. But the point here is that even though each one of these was transitory, we're talking 30, 33, 34, 35, 36 months from beginning to end, which is where we're getting into right now, compare that with the great inflation, which is on the next slide number nine. It's very, very different, you can see it clearly. Just to be clear, these, the last couple of charts on page eight and nine, are showing the consumer price index as a year-over-year rate of change. And that's what we're really seeing here. So in the early part of the great inflation in the 1960s, it starts out very differently. And it ends very differently. By the time you get to year three and force inflation is still ramping up. Because there's this constant introduction, this constant flow of new money and new credit into the economy. Whereas in the supply shock case, especially 1946, once Americans had exhausted their savings and started to rebuild their savings, that was the end of the consumer price pressures, even though it took another couple years to finally resolve itself into the deflationary recession in ‘48 and ‘49. And that sounds a lot like what we're seeing over the last couple years. Now, it wasn't savings, like in 1946, where Americans were not saving in the late 2010s, into the early 2020s but it was like savings altogether, because of Uncle Sam's intervention in the economy with the helicopter drops and everything else.

And if you look at the income statistics, what you'll see is exactly that you see a huge increase in income from Uncle Sam's redistribution, and then into 2022. And really the second half of 2022, lack of income, lack of savings really come into it in the same way that we saw in 1947 and ‘48. So what we have from these three different cases is three potentially different endpoints. How does this resolve itself? The first one is the one you know, I think that we'll see throughout the rest of the presentation here, the evidence is pointing towards a deflationary recession, very much like the 1940s. There's also the possibility it ends up like the early 1950s, where we had a relatively short supply shock, it was really it was pretty severe. But then it kind of just went away dissipated into a soft landing, which you hear a lot nowadays. And then the third possibility, as you raised Erik earlier, was great inflation 2.0, which I don't see really any evidence for that including right here, we will look at what the consumer price behavior has been over the last couple of years. And there's a reason that resembles those other two and not the great inflation. And that's because we don't have the constant influx of new money and credit. In fact, in 2023, we have the opposite problem. We have a growing credit crunch, which I think contributes more to the deflationary recession, which is already developing on its own terms.

Erik: Jeff, how do we measure where we are in this story right now? In other words, we know there was a massive wave of inflation because of the pandemic and the supply chain disruptions and so forth, then it's kind of transitioning into disinflation, does it go all the way to deflation? Well, what happens next, how do you know where we are in the story and how do you monitor where it's going from here?

Jeff: Yeah, because that's, that's really the big question. Now we see the disinflation, even the Fed says we disinflation. But what what's next here? Do we continue on into the deflationary recession? Do we hit the soft landing that everybody's looking for? And so where do we look for what do we look at for clues, and I would start in producer prices, because as you can see on chart 11, there's a very good correlation between especially finished goods, consumer or producer prices, excuse me, and the PCE deflator as you would expect, it's not a perfect correlation, nothing ever is. But I mean, when you're talking about economic data micro high-frequency macroeconomic accounts that's about as good a correlation as you can see in producer prices, not just the United States as we'll see around the world. They're already solidly deflationary. So if we follow the Producer Price Index in the US where it's gone, I mean, that's already negative. It suggests that the consumer price index or in this case, the PCE deflator is likely to continue to decline too. We see that and more close up on page 12. Producer Price Index is leading the consumer price index, in this case, the PCE deflator lower really since again, the early part of last year and then consumer prices really turned around June even before the Fed got going with its rate hikes we were already into the supply shock inflection. You look at the overall PPI on page 13 again, you see the June's inflection more determined deflation, even though it's intermittent recently, as since November. So from November, we see more negative months than not, which is left the overall PPI just heading into deflation itself. And as I just said, this is not just a US phenomenon. It's a global phenomenon.

You look on page 14, even the Euro PPI which is negative and here I've got the euro area, core PPI core prices. That's another thing you hear a lot about stubborn core prices. Well, here we have producer prices in Europe that are really negative in the month of May, which I believe is the latest data we have already negative in April. So two straight months of declines there. And that's core producer prices, which leads the European consumer prices to slide 15 Japan guess what deflation and producer prices in Japan and I think the big one is on the next slide, page 16 China, Chinese producer prices have been a bellwether for global, not just not just global trade, not just global manufacturing, but the overall direction of the global economy. And we've already seen up to June, Chinese producer prices that are declining at a rate we've only seen a couple of times in its modern history what Far and Away worse than 2020. We're about equal to the lows of 2015-2016 which was a devastating time for much of the world, especially in emerging markets. We're getting into territory exclusive company like something like 2008 2009. So if we're looking for clues about how disinflation and consumer prices is going to resolve itself, are we going to hit the soft landing or moving into deflationary recession from the perspective of producer prices? There's not much leeway here. There's not much doubt here. Producer prices are solidly deflationary. And the reason is that economic circumstances are becoming more and more recessionary. So we've got deflation and producer prices. We've got consumer price disinflation that's moving further and further as we go thinking about the recent data from the PCE deflator, as well as in Europe, which I think we'll get into in a minute.

But either way, where's this all this going to produce your prices are moving the entire economy toward the deflationary recession outcome, which I think you can see pretty well on slide 17, where I've taken the Chinese PPI and measured it against us wholesale sales and once again, we see a absolutely tight correlation with producer prices in China, in business-to-business sales in the United States would suggest not just further disinflation but also further deflation in the US economy as it relates to Chinese producers who aren't producing as many goods which is also consistent with a recessionary environment. The reason why we say Chinese producer prices are such a good bellwether for the economist, you can correlate almost anything with a Chinese PPI. It tells you about the direction of the global economy here. I just threw up the ISM manufacturing because we got the data for that today, which again, another bad number for the ISM suggesting more contraction, more disinflation, if not deflation and producer prices, which goes along with this globally synchronized disinflationary deflationary trend that is still developing in every bit consistent with the supply shock case.

Erik: Jeff so far, we've been talking about macro economic indicators, let's go to the markets things like a yield curve that really tells us from the market perspective what's happening.

Jeff: Yeah, so we'll go to slide 19. The near-term forward spread. That's something that central bankers at least had mentioned before, when the yield curve first inverted back in March of 2022. Everybody said, "Now we're not going to pay any attention to that we only pay attention to the near-term forward spread." And the near-term forward spread looks at the three-month rate today and what the market believes the three-month rate will be six quarters ahead or 18 months ahead. And for a while there, I mean, Powell said in the early part of 2022, the near-term forward spread is steep, which is the market saying that it was expecting interest rates to be higher, six quarters in the future than it was at that time, which made sense given the fact that Powell and the FOMC were increasingly hawkish and about to raise rates. But as you can see, oh, really, since May and into June in particular, again, consistent with what we've seen in the macroeconomic data, everything began to change. So that by the time we get to November, the near-term forward spread had inverted and that's about the time you stopped hearing anybody at the Federal Reserve or anywhere talking about it. In since November, it's gotten more and more inverted, obviously took a turn lower after Silicon Valley Bank in the first stage of the banking crisis, it's come back a little bit after first republic. But still, even today, the near-term forward spread is about where it was in February, which suggested pretty substantial recession what the near-term forward spread is telling us is that the market expects that interest rates in this case, a three-month rate will be substantially lower 18 months from now than it is today, which is consistent not with a soft landing but instead with the deflationary recession that we continue to see in the macroeconomic data.

And we go further into the yield curve mechanics on page 20, you've got the two-year cash rate the US nominal treasury, versus the two-year forward rate, which is something that the Federal Reserve comes up with doing some calculation, you can see the same thing, moderately steep around June and July last year, then it completely collapsed started to invert. But really, again, November and December, you see that note that the forward two-year rate goes below the current two-year rate which is indicative of the market suggesting rates are going to be lower two years ahead, at some point, you know, at some point in the future rates are going to be lower than whatever they are today, consistent with deflation and recession, certainly not continued inflation. Same thing on the next page, page 21. That's just the one-year forward rate and the 12-month treasury bill, same thing. Market expecting interest rates to go lower in the future. And then, you know, on page 22. You look at the yield curve over the last year and a couple of months, and it really hasn't done much despite all you know, everything that we've heard from soft landing all the quantitative tightening that's going on, which is almost 700 billion as of the latest week and just US Treasuries alone. We've got all those rate hikes in between, we've got any number of commentators saying that, you know, inflation is going to pick up again, what did they call it, transitory disinflation, that was a term that came up earlier part of this year.

And through all of that, despite everything that should be highly negative to these bonds, and not just in the US, but all around the world, everything that should be highly negative, highly sensitive, long term, treasury bonds and government bond instruments. They really haven't done anything since last June, which is when again, going back to our macroeconomic data, that's when everything really started to shift when the downside of the supply shock case really started to show itself. Ever since then, the bond market has said, "We don't really care what the Fed does. We don't really care about quantitative tightening, we don't really care about these soft landing narratives that come up. We're pretty sure that we've got this supply shock case nailed down. And so it whether it's the US Treasury curve, the German curve, and up until recently the Japanese curve, and those still to a certain extent there. The markets are saying, disinflation leads to a deflationary recession."

Erik: Jeff, tell me more about this soft landing thing. It seems like we've replaced the phrase dovish pivot which everybody was expecting imminently even though nobody was really sure why. And now it's everybody's expecting a soft landing, even though they can't really explain why. What's, uh, what's really happening here. What's coming?

Jeff: Well, the expectation is, you know, from the realization that the Fed's rate hikes are coming to an end, which is consistent with the disinflation that we see in all the macroeconomic data. Forget the market data, as we said that the Fed doesn't really pay attention to anything that contradicts its positions, certainly like something like the near-term Ford spread. That was once all the information you could want from the yield curve that nowadays they don't even mention. So as far as the Fed is concerned, we've got the Goldilocks scenario, right? We've got disinflation coming in consumer prices, forget the deflation in producer prices. We got disinflation, it's more and more entrenched. We see it in core consumer price rates, you know, the GDP numbers for the last quarter, even services prices were substantially slower than they had been previously. So, from the Fed's perspective, they can say, yes, we've got this disinflation developing. So that means an end to the rate hikes but also at the same time, we won't have a recession. It'll be terrific. We'll have no recession. We'll just have a little bit of a slowdown, consumer pressures will go way, it's absolutely perfect, which is one reason why the stock market is seemingly on fire at the moment because it's like the Goldilocks scenario. But you know, is that really the case? Is that what we're really seeing in the data? Does Jay Powell even agree with Jay Powell? Because if you think back a couple years to 2019, July of 2019, Mr. Powell went up in front of Congress and told them that, you know, he was very concerned about the state of the US economy, it looked really weak. The yield curve was really flattening out, some parts of it were already inverted, the macroeconomic data was not good. And he singled out the strength of the global economy and said, you know, there's, there's weakness around the rest of the world, we need to be really concerned here.

And as I think many people might remember, within a matter of just a few weeks, the Fed was cutting rates at the end of July 2019 and began a series of rate cuts, it also included quantitative easing in there. So we would expect if Powell back in 2019 was very concerned about a recession in the economy. And today, he's very constructive on the economy, consumer prices, we should be able to tell the difference in the macroeconomic data. So if the soft landing is what we see today versus what he was afraid of a hard landing in 2019, that's not what we see in the accounts. If you go to slide 25, nominal GDP in the second quarter of 2019 is actually a little bit better than it was in the second quarter of 2023. Despite the positive interpretation of the recent GDP report, and then slide 26, that's real GDP, which was actually better in 2019 than it was in the last quarter. Slide 27 Price deflator. The Fed still says they're worried about consumer prices when the GDP price deflator, as you can see is down dramatically from where it was in the middle of last year, again, that June inflection consistent with the supply shock. In fact, the price deflator in the second quarter 2023 was a little bit less than in the second quarter of 2019. They're about the same there. So as far as inflation pressure, consumer price pressures, there's not a whole lot of difference already. And you can see that I think in the next slide 28th, the implicit price deflator for goods just strictly goods, for the last three quarters running let's the end of 2022 into 2023. Thoroughly disinflationary consumer prices in goods, again, consistent with what we saw in 2019. But the look at some of the other monthly indications and other non GDP related indications here, I'm just showing you the ISM manufacturing we're way, way, way below where we were in 2019, according to ISM. And again, the ISM just came out today with a lot of concerning numbers, including on employment, lowest employment number for them since 2020. So we're further along in the downturn in 2023 than 2019.

That's the same on slide 30. With the ISM non-manufacturing, again, appreciably worse there, we'll get an update on that this week. But it's not going to look much different there. And then the unemployment rate, because the Fed always talks about the unemployment rate because their view of inflation is always derived or mostly derived from the Phillips Curve, whether there's any historical basis for that or not, they don't care. So they always talk about a tight labor market, as well as a low, low unemployment rate as a risk to consumer prices, when the unemployment rate in June 2019 was exactly the same as it was in June 2023, I think 3.6% in both months. So in 2019, the Fed said we're worried about the economy, we're going to start cutting rates, whereas in June when in 2023, the Fed says, soft landing, more inflation risks, the data doesn't support that interpretation at all. In fact, we continue to look at some of the other side, you know, us real GDP on a long run basis, you can see we're way behind trends and falling further behind all the time. So the economy isn't all that great to begin with. So 2019 versus 2023. It's really just the Fed's current interpretation, which is derived from the biases of the last couple years than it is an Iran, their idea of a soft landing isn't really consistent with their own interpretations of statistics from just a couple of years ago. So it's really just their bias and their reading of more often than not, it's just the unemployment rate in some of the other labor markets statistics than it is an overall assessment of the economic situation.

Erik: Jeff, let's broaden this out and consider some of the international drivers around the world starting on page 33.

Jeff: Yeah again, Powell said in 2019, one of the primary reasons that he thought the Fed should start cutting rates at that time and even mentioned in his testimony to Congress and throughout speeches during that time period too, was that the global economy really looked bad. And of course, he blamed trade wars and tariffs and all that stuff. But even economists back then knew that the trade wars were never enough to explain the degree and how widespread the weakness had become at that point, and how it was reverberating back on the US economy. So that's a part of our deflationary recession or soft landing argument here in 2023. What is the rest of the global economy look like? Because if the Fed was worried about it four years ago, shouldn't we be worried about it today, especially when you look around the rest of the global economy, it's in much, much worse shape than it was four years ago. As you said, Eric, starting on page 33, with Germany, earlier this year, German Chancellor Olaf Scholz, the German government put out a report that said Germany was going to avoid recession when even at that early stage, Germany was already in a recession. And I don't mean a technical recession. Even though yes, the GDP in the fourth quarter of 2022 and the first quarter of 2023 turned out to be negative, which you can see in the next couple of slides 34 and 35.

But more so that Germany is in a real recession. At the end of last year to the beginning of this year, the numbers that just put out this last week for the second quarter, flat GDP in the second quarter, which means that Germany's not increasing, not rebounding out of a technical recession into recovery. Instead, Germany's already in the beginning stages of a recession and is likely heading into a worse shape moving forward, which the reason we spent some time on Germany and focus on Germany's because it is another Bellwether economy for the global system. And it's consistent with everything we talked about before with Chinese producer prices on slide 35. We got German GDP there, along with manufacturing, disinflation, and deflation and producer prices. You can see it from Germany's perspective, where the S&P Global's PMI is just down into levels that we've only seen a handful of occasions, it's less than 50, or less than 40, actually, which is, you know, that's 2020 or 2009. And really, that's about it. So the level of the goods economy, demand in the goods economy is consistent with ongoing deflation and producer prices and further and further disinflation and consumer prices. And it's not just one survey or another, if you go to slide 36, Germany's ZEW assessment of the situation there is actually much worse than GDP, it's way down at recession levels have said consistent with 2020, as well as 2008 in 2009.

So if Germany's already in recession, and looking to stay in a recession, or maybe get worse recession, that's not a good start for the rest of the world. Especially when you look at slides 37 and 38, where we have German trade, which by volume is already at lows consistent with to the Great Recession 15 years ago, and I don't mean rates of contraction, I mean, actual volumes of trade, are the same as when we were at the worst parts of the world, some of the worst economic circumstances in modern history. That was already 15 years in the past. And I think this chart here and the next one on page 38 really highlight the problem that many people have is when you see the values of imports or the values of goods that have been traded around the world go high, because of the supply shock, you associate that with a red hot economy. When you look at these trade statistics and a lot of other statistics, including real GDP, what you see is that the actual amount of goods that were traded, the actual amount of demand for goods as well as services, was masked by that increase in consumer prices and producer prices to an extent. So we were confusing consumer price increases for a bunch of things, including genuine inflation, as well as an actual red hot economy and recovery where when you look around the world at these trade statistics, you see that the economy never really got recovered all that much. And it has already fallen off to a substantial degree, which matters because as the nominal economy starts to roll over, we start to move out of the supply shock, increasing prices, therefore increasing revenue to a lot of these businesses around the world. They now have to normalize their out their own individual operations to a volume that is so much less than people realize.

So if you have no nominal protection from the supply shock nominal price increases, what are you going to do? You're going to start firing workers because not only do you not have work for them to do, you also don't have the money coming in to keep all of those things up. So as far as Germany in Europe goes, deflationary recession is more developed and more advanced than it is here, which makes sense, especially from Germany's perspective because that's a bellwether. So if you look on page 39, what do you see you see the exact same thing in the German market? You see in US Treasuries going back to last October, suddenly, the German market not only did the curve invert preceding the recession that Germany is already in, no matter what has happened in how many months since then, we're talking about what almost 10 months now, rates long-term rates in particular have been remarkably steady even though the ECB continues to be aggressively hawkish raising short-term rates. The ECB is doing quantitative tightening since March and none of it seems to make much difference in long-term rates.

So you can see the curve and how it's changed on slide 40. I talked about forward rates in US Treasuries before. So on page 41, we've got forward rates in euros, Euribor futures, which look exactly like the German curve and the US Treasury curve, which is inverted since last year, really last fall. The fireworks in September and October actually did produce a huge shift in the marketplace, which is consistent with rates going down in the future, which is self-consistent with the deflationary recession scenario. And so it just continues to go data point after data point. Page 42, going back into macroeconomic data, we see the consumer prices in Europe measured against consumer price expectations from the European Commission's economic sentiment indicator, pointing to more disinflation at the very least ahead. Producer prices, consumer prices, you know, talking about the relationship there. It's not just in the United States, we also see the same relationship in Europe, very close correlation between producer prices and consumer prices. And producer prices in Europe, as I mentioned, they're already deflationary. So likely more at least disinflation and consumer prices in Europe, European GDP, which just came out yesterday, again, you'll see Europe never really recovered all that much in real terms, and now experiencing a recession, that is not likely to get out of, more forward-looking indications for the second half are more negative than they were in the first half. So

Europe, Germany, you look at those, and it's, it's a picture of where the US is going to be in a few months, they're already the recession in Europe is already more developed, even if consumer prices are lagging, which is not unusual, as we've said before, producer prices and deflation, the economy overall heading for much worse trouble. One reason why, slide 46, again, this is a globally synchronized problem.

And the biggest problem is probably China, slide 47, the Chinese GDP is just a mess, the last GDP number around 6% is actually much worse than it appears. That just had a high base effect comparable to the second quarter of 2022 when China was locked down to a high extent. You also see just horrible retail sales numbers in China, the last one for June was 3%, I believe there was a time when anything less than seven or 8% was considered a recession. Now we're lucky if China gets 3%. And that's with an easy comparison. Slide 49 fixed asset investment, you just keep going through all of these economic statistics from China, what you see is exactly what we started out with, you go back to go to slide 50 and 51 trade numbers, trade recession, we're already in the same territory as 2020, or 2016, or 2008 2009. Whether it's imports or exports from China on page 51, we got one of the worst export numbers in Chinese economic history for June. So when you step back and look at everything, you've got disinflation and consumer prices, but that's looking behind us to an extent, and it's already consistent with the supply shock case, looking ahead at what producers and markets are saying producers are already cutting prices to try to deal with the lack of demand. At the same time, markets are pricing forward from that lack of demand, as well as deflation in producer prices and disinflation and consumer prices, saying this is only going to continue, especially as it spreads everywhere around the world. And I focus here on Germany, Europe, and China, as was the US, you can look at other places around the world that are in similar circumstances because it really is a globally synchronized trend. And to me that globally synchronized trend, all of the data points toward not a soft landing, not a great inflation 2.0, but the 1946, 47, 48 case, which you know, go back to slide 53. Again, China producer prices highly deflationary, which will spread across the global system.

Erik: Jeff as always, I love your charts and graphs, but I'd like to try to tie all of this together now because if I look at your whole presentation about soft landing and everything else, it seems to echo a lot of what I've heard from some of our expert MacroVoices guests in the last several months. So many different voices kind of saying look, it's not over till it's over. The bear market bottom is not in this is a bear market rally. You know, we've heard all of these different messages basically saying it ain't over yet. There's a bad ending here. It's still coming. But look at the stock market, Jeff. I mean, we're waiting He passed the 61.8% fib retracement. I mean, what are we waiting for it to see a reversal at the 99 and 44/100% point at $4,796 point something so that we don't quite get an all time high before the bear market rally is over. I mean, it doesn't look like a bear market rally. It looks like we're headed to new all time highs, and everything's better. But I think you and I agree that everything's not really better. What is the market think it is?

Jeff: Well, I think the market loves what the soft landing scenario presents. And right now when you look at the macroeconomic data, there's enough ambiguity in the statistics where you can say that, yes, this is nothing more than a soft landing. We're in an economic slowdown globally, but the slowdown will slow down. It'll stop before we get to a recession. Jay Powell is going to stop hiking rates, it's going to be the absolute perfect recovery scenario. And so if you're a stock investor, and you believe in the Soft Landing stuff, then wouldn't you want to buy now before it actually gets confirmed? And so the question is whether or not the market is sending us a useful fundamental signal of the future possibilities, which I don't believe stocks really do...

Erik: ...or the biggest bull trap you've ever seen, which is what it sounds like to me.

Jeff: Yeah, I think that's exactly right Erik. I absolutely believe that's the case. And I think, you know, after you think about it this way, when did stocks hit their high? That was late 2021. And so for the last year and a half, everybody's been sitting back saying, "Oh, this sucks, I need to get back in the market, I want to get back in the market, I need to get back in the market." And as soon as the Fed says, "We're going to stop hiking rates, and it looks like a soft landing," everybody got back in the market? Why are we so surprised about that? And that, to me, again, equity prices don't really have a whole lot of fundamental signals involved with them. And it's really a reflection of what people are thinking and therefore trading on. And if people are buying the soft landing story, then the stock market will be literally buying the soft landing narrative, which is exactly what I think is happening here. And I think it all falls apart the moment we get a negative payroll print, or the unemployment rate jumps above 4% and continues to rise. I think the employment numbers, which is what everybody bases their narrative on, once they turn that's going to be the "Uh Oh, this is a trap moment."

Erik: So you think that the because that's really the important confirmation, are catalysts for the next leg? You think the thing to watch for is a soft print employment data specifically? Or what exact print should people be watching for? To say, Okay, here it comes?

Jeff: Yeah, well, I mean some of the macro economic weakness we've seen so far hasn't really made a dent, you know, like I mentioned ISM, PMI data. This is really ugly. Overseas economic accounts that are really ugly stocks don't care about any of those things. I think like the Federal Reserve equity investors are a lot of people who are buying stocks have really focused in and have tunnel vision on the employment data. Because what did Janet Yellen say, as long as the unemployment rate is low, we won't have a recession. And I think a lot of people believe that which is the wrong thing to believe. The lowest unemployment rate in US history was hit the month before a recession began. The unemployment rate doesn't really tell us anything about future cyclical conditions. But I think a lot of people have bought into it, because the last couple years have been pretty bad for stock investors. And the idea of a soft landing without rate hikes, no recession. That's it's tremendously alluring up until that unemployment rate number changes, or the payroll report becomes negative or something that pierces the fantasy that we're going into a soft landing because the labor market appears to be so strong.

Erik: Well Jeff, I can't thank you enough for a terrific interview. But before I let you go, please tell our listeners a little bit more about Eurodollar.University which is the new URL for something you and I started a few years ago.

Jeff: Yeah, you know, all about Eurodollar University Erik. It's been a long time. I can't believe it's been six years already. Yes, we started out Eurodollar University back in 2017 to really try to explain what the monetary system is, how it works and why it matters. And then, over the years, I've developed it into a much more detailed process, a much more detailed output, where you can go to Eurodollar.University, sign up for memberships and research subscriptions and all that stuff to really explore the global reserve currency, how it's supposed to work, why it isn't working, and what the implications are for the global economy, for investing, and for everything that really matters on a day to day basis.

Erik: Now I am embarrassed not to know this answer myself, Jeff but we still have the original recordings of you and I six years ago doing Eurodollar University those are at macrovoices.com/edu for Eurodollar University. Is that still relevant or is there a more current and updated version of that that they can find at Eurodollar.University?

Jeff: It's much more organized detailed as well as exhaustive. There's about 50 hours of material at the Eurodollar University website in the Members section where we tear apart all of the fundamentals of money. Why do we pay attention to curves? What is it that really goes on? What's the importance of collateral? All the all the specific details of the monetary system. I've taken our Eurodollar University from MacroVoices and just expanded all over the place with it.

Erik: Well, I'll get our webmaster to redirect the edu page over to Eurodollar.University and we'll get you back in a few months for another update. Patrick Ceresna, Nick Galarnyk, and I will be back as MacroVoices continues right here at macrovoices.com