Weekly Market Flash

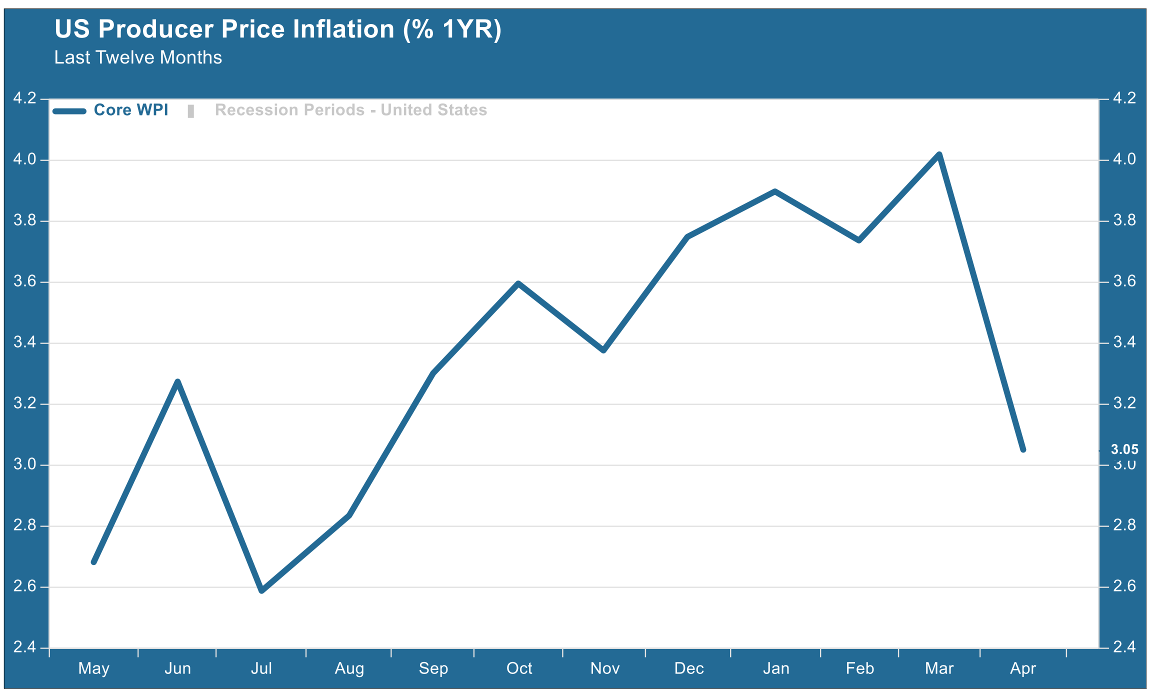
Data Distortions and the Spirit of 2020

May 16, 2025

Every calendar quarter, we publish a survey of markets and the economy for our clients called the "State of Play." One of the standard features of this quarterly report is a time series snapshot of four headline macroeconomic trends over the past five years. The significance of this span of time is that it was exactly five years ago when the economic shutdown forced by the global pandemic threw a spanner into our neat little set of trendlines for employment, GDP growth and the like. Suddenly, those incremental month-to-month and quarter-to-quarter changes were disrupted by the most seismic shifts on record. In the second quarter of 2020, US real GDP growth declined by 28.1 percent. In the third quarter it rose by 35.2 percent. Compare those numbers to the average real GDP growth rate for the past three years, of 2.4 percent, and you can see how those Covid-era numbers threw our orderly State of Play charts out of whack.

Incentives Now, Consequences Later

Now, we are not going to say that a month-on-month decline of 0.4 percent in the Producer Price Index, bringing the year-on-year growth rate down nearly a full point from 4.02 percent to 3.05 percent, is in any way as distortive as that 2020 freak show of data gyrations. It does stand out among its recent peers, though, as the chart below shows.



Source: US Bureau of Labor Statistics, MVF Research, FactSet

While not as extreme, the April PPI number does share a narrative of sorts with the pandemic data in that the change, which was much larger than what economists had forecast, could be placed on one single cause. In this case, of course, the cause was the derecho storm of tariff policies announced (and revised, and revised again and again) between the March and April PPI surveys.

Think of the PPI as being "upstream" from its sister metric, the Consumer Price Index. The PPI, also called the Wholesale Price Index, tracks changes in prices that businesses receive for their goods and services. Manufacturers have choices to make in determining how much of the cost increases they face from higher input costs (raw materials, labor and the like) they pass on to consumers. What the sharp monthly decrease in the April PPI number shows is that, for now anyway, businesses are swallowing much of these input costs themselves, settling for lower profit margins as they try not to lose customers with higher end prices. Maintaining volume in sales is the incentive to refrain from passing on costs. But that strategy can only last for so long, and chances are that the coming months will look quite different.

Walmart's Warning

How soon will those higher prices start showing up at the retail level? Pretty soon, according to Walmart. The big box behemoth released its first quarter earnings report this week, and amid what was overall a healthy outcome for Q1 was a warning that consumers will start to see higher prices on the shelf as soon as the end of this month. The company noted that it has been trying to keep prices low (for the same reason that manufacturers have been eating their higher input costs) but that, in an industry with characteristically low profit margins, they will need to offload more of that burden onto consumers.

What has been missing in much of the financial reporting this week on the "relief" resulting from the Trump administration's abrupt decision to lower tariffs on Chinese goods to "only" 30 percent is that, well, 30 percent is only a relief in the sense that 30 is a lower number than 145. It still amounts to a sizable cost increase. After all the to-ing and fro-ing in this administration's policy changes, the average global tariff rate on goods imported into the US is still over 17 percent, higher than at any time since 1934, when the unfortunate Smoot-Hawley tariffs were in effect. And we still have no idea what things will look like after all the various 90-day "pauses" have lapsed. Or what brilliant new ideas the engineers of the tariff program will come up with in the meantime.

Economists have been backing off some of their most dire forecasts for a recession later this year. We'll see about that; meanwhile, however, the stagflation recipe of higher prices and lower growth remains a pretty good bet, in our opinion. We may be due for a reverse of the hard data / soft data trend of the past several months, in which consumer and business sentiment starts to improve – hey, 30 percent is pretty good by comparison! – while inflation, employment and growth data start to turn south. We're not out of the woods yet.

Masood Vojdani
President & CEO

Arian Vojdani
Principal & Investment Adviser

Katrina Lamb, CFA
Head of Investment Strategy & Research

advice. A copy of the MV Capital Management, Inc.'s current written disclosure statement discussing our advisory services and fees is available for review upon request.