

# The Delray Democrat

## Stagflation<sup>1</sup>

*Michael K. Cantwell*

GDP has dropped from 2.4% in Biden's last quarter to -0.3% in Trump's first quarter, and this is before the Trump tariffs have taken effect.

Companies that sell popular products and services to consumers, including Mattel, Chlorox, and Denny's, are [reporting](#) both that Trump's tariffs will force them to raise their prices and that sales are already down as consumers are reducing purchases in anticipation of those higher prices.

The University of Michigan Survey of Consumer Confidence just [reported](#) that consumer sentiment fell for the fifth straight month since Trump entered office and now is only slightly above its all-time low. Republicans as well as Democrats are expecting higher inflation and unemployment, which

The Conference Board's Consumer Confidence Survey [reported](#) that "consumers' expectations for the future are at a 13-year low." More than 70% of Americans expect a recession and inflation expectations reached their highest level since November 2022.

The Fed is facing the same Hobson's choice faced by the Fed back in the late 1970s and early 1980s as well as more recently in 2022. If they lower interest rates to reduce the likelihood of a recession, they increase the risk that inflation will spike. And if they increase interest rates to fight inflation, they risk causing a recession.

In the earlier instance, Americans suffered stagflation – interest rates that went as high as 20%, inflation that never fell below 10% for over 3 years and peaked at 14.8% as well as unemployment that reached 10.8%. While many economists predicted that the 11 interest rate increases imposed by the Fed in 2022-23 would cause a recession, not only was inflation cut from 9.1% to 3% in a year, but unemployment experienced only a slight uptick, from 3.6% to 4.2%. See [Deconstructing the Inflation Bogeyman](#), *The Delray Democrat*, September 2024. We not only avoided a recession but growth remained strong because of Bidenomics.

Today, however, we have a one-man wrecking crew in the White House. Stagflation will be resurrected, and with a vengeance.

