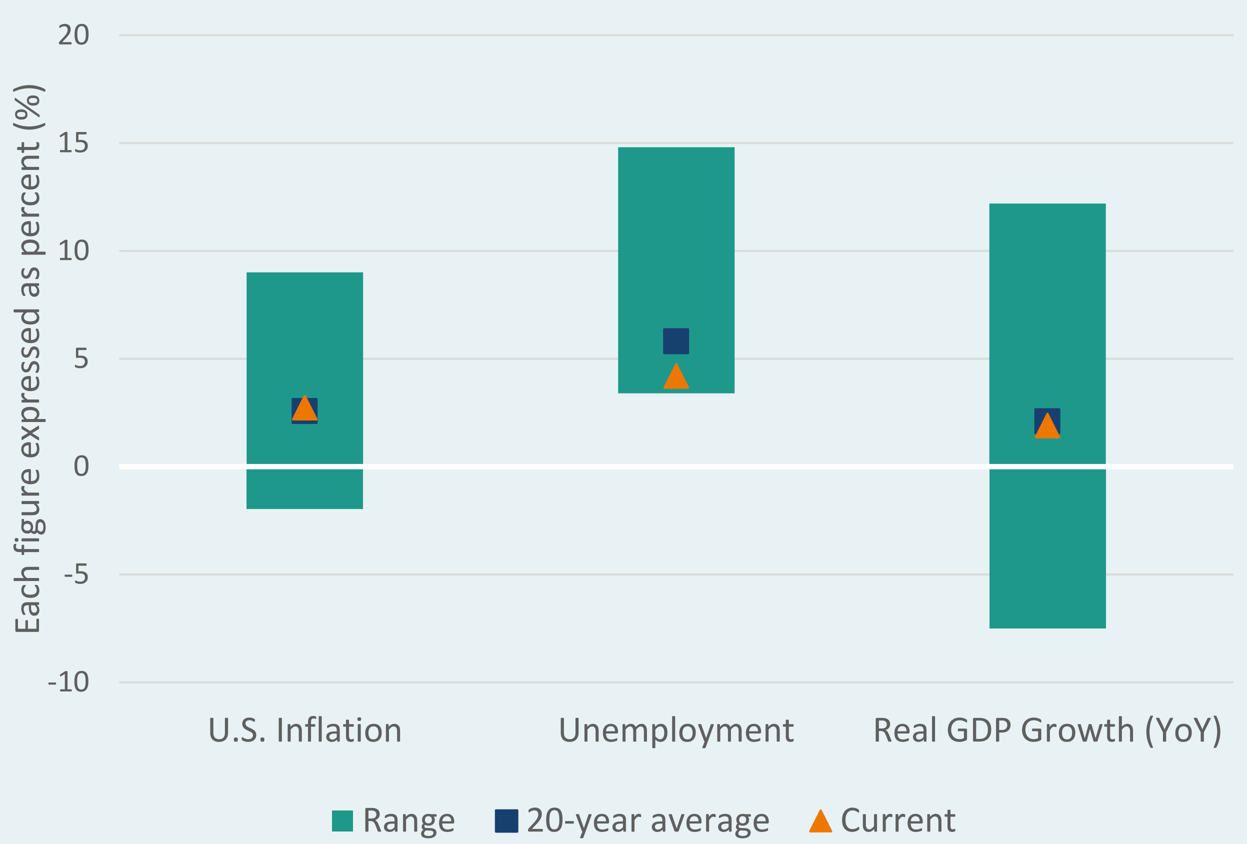
Verus Market Note

What's with all the "stagflation" talk?

The price impact of tariffs has been fairly muted so far in comparison to what was initially feared, at 2.7% year-over-year as of July. Investor expectations for inflation appear to be for a rise to a range of 3.0-3.5% peak inflation sometime in the next 12 months and then a fall to prior levels. Meanwhile, economic growth surprised to the upside in Q2, Q3 growth is forecast at 2.5% according the Atlanta Fed GDPNow indicator, and the economist average real growth forecast for calendar year 2025 is 1.6%, according to Bloomberg. The job market remains relatively strong at 4.2% unemployment. So, if the economy is growing at a moderate positive rate, the labor market is tight, and inflation is expected to rise slightly above the long-term average, where is the stagflation talk coming from?

In this week's Market Note, we compare current levels of inflation, GDP growth, and unemployment to the 20-year average. "Stagflation" is generally thought to be a sustained period of economic stagnation and unusually high inflation (growth close to 0% and inflation substantially above average). Neither of those two things appears likely to occur based on available evidence.

COMPARING CONDITIONS TO HISTORY



Source: Verus, BLS, as of most recent report – range shown as lowest and highest readings of the past two decades