

The Subway Sandwich Economy

“The sky has finally fallen, Always knew it would.”- Eeyore, Winnie the Pooh

When travelling the choice of where to eat lunch is often driven by convenience and availability. The sandwich chain Subway is often a satisfactory stop – typically clean, quick, and you know what you will get. The food is not inspiring but it's acceptable. But does anyone really feel excited about stopping at Subway for lunch? Not particularly. It's an easy and fast choice, one that everyone is ok with but, honestly, nobody is writing home about. That is the way we feel about this economy. The data is *fine*, overall health is *acceptable* and *palatable*, but nothing really pops out as exciting or strong about it. Broad based, the economy feels ok but uninspired, weathering tariffs but not taking off either. The quintessential Subway sandwich economy – unremarkable.

CPI is running satisfactory but a tad hot, the same for PCE. Unemployment is stable but starting to tick up as weekly initial jobless claims increase marginally. PMIs and ISMs show continued weakness in the manufacturing sector. GDP is all over the place, logging a negative -0.5% in Q1 and potential 3.0% gain in Q2 due to a rush of imports in Q1 to beat tariffs. None of these data points show acceleration or strong positive trends, although there have been solid readings across other sectors, such as consumer spending and personal income. For the average consumer though, everyday feels difficult after the run of inflation, especially in food, housing, education, and insurance. A decade ago, Subway had a \$5-footlong, and without discounts or promos, that now costs \$10-\$12. The average price of a Big Mac from McDonalds costs \$5.79, meaning it would take 0.79 hours working at minimum wage to buy a Big Mac. Since minimum wage has not gone up since July 24, 2009 (\$7.25/hour) you went from being able to afford 2.11 Big Macs per hour of labor to 1.25 in 25 years. Average rent is up 158% since 2000 and up 71% in just the last 6 years (per Zillow). So, while inflation might be slowing, many are still not getting the bang for their buck that they got a decade ago. This is showing up in corporate profits as companies, such as Chipotle, are seeing consumers cut back on spending and look for value vs. having the extra income to spend on guacamole and a premium lunch product.

	June	May	April	March	Feb	Jan.	Dec	YOY
Personal Income	0.30%	-0.40%	0.80%	0.60%	0.70%	0.50%	0.40%	4.70%
Compensation	0.20%	0.40%	0.40%	0.50%	0.50%	0.30%	0.50%	4.90%
Wage & Salary	0.10%	0.30%	0.40%	0.50%	0.50%	0.20%	0.50%	4.80%
Personal Spending	0.30%	0.00%	0.20%	0.70%	0.30%	-0.20%	0.90%	4.70%
Savings Rate	4.50%	4.50%	5.00%	4.40%	4.40%	4.20%	3.50%	NA-
PCE	0.30%	0.20%	0.20%	0.00%	0.40%	0.40%	0.30%	2.60%
CPI	0.30%	0.10%	0.20%	-0.10%	0.20%	0.50%	0.40%	2.70%
Unemployment Rate	4.10%	4.20%	4.20%	4.20%	4.10%	4.00%	4.10%	NA-

What should an investor do in this economic era of uninspired, but not terrible, data? We believe you stay the course and stay long equities for 2025. Yes, we are fully expecting a fall swoon as September is often ghastly to the market but we believe the data could continue to improve. Markets care much less about current conditions, and care much more about the trend – are things getting better or getting worse? The lower- and middle-income groups feel squeezed by higher prices, but they also continue to spend on services and experiences. Could we see this tariff stress start to show up in our consumer data? Tariffs have felt like the looming black swan that eventually will hammer the US consumer – we just have not seen it yet. I think we see tariffs being passed on more aggressively in the 2nd half of the year, but we also see a resilient and growing economy as well as potential deals and carve outs that could further water down tariffs. Rate cuts could help stimulate a slowing economy and with the appointment of Stephen Miran, another dove has joined the rate cut chorus. But until something breaks, we remain in this Subway Sandwich economy. Trundling along, nothing horrible, but nothing stellar. Waiting, mayhaps, for something better to come down the line.