

Inflation: Why More on the Near Horizon

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The US govt’s most recent inflation report shows consumer prices rising past 12 months at 7% rate, up from prior report that showed 6.8%. (Really both over 10% for reasons I’ve stated before). The worst since 1981.

Biden admin. spokespersons say it’s ‘slowing’. Yet prices rising first week of January twice as fast as last week of December; and 7% is more than 6.8%.

Inflation will cut into 1st Quarter 2022 real US GDP, dampening consumer spending. Also, the end of child care benefit will have same effect on real consumption. Then there’s the general fall of disposable income for millions of US households due to failed Build Back Better plan, which is now not only dead but buried.

Continuing problems of production and exports from China/Asia will further add to US real economic slowdown this quarter.

Ditto as Omicron slows business investment and adds to workers shortages; and as Fed raises interest rates as well. Focus will be on Fed raising rates as means to slow inflation.

However, Fed rate hikes depress demand which is not the problem behind inflation. That problem is in part supply side issues (US and global trade) and even more so problems of US monopoly corps price gouging.

Fed rate hikes can’t effect either supply or monopoly causes. It can make households pay for inflation by rate hikes that result in layoffs in housing, autos, other big ticket purchases—just as the Fed did in 1981-82 when it raised rates to 18%. It provoked recession as solution to dampen inflation—when the real cause was OPEC and Saudi supply side cause. Will the Fed repeat 1981 in 2022? If it tries it will fail. US economy is far more fragile today. Should Fed raise rates beyond 3% (10 yr. US bond rate now at 1.5%), it will provoke major

real economic contraction—i.e. double dip recession in 2022. So it won't and will back off, I predict.

In summary, more chronic inflation coming 2022. More slowing US real economy this quarter. And growing fragility in global/US financial markets as China property developers default pressures spread, contagion potential rises, US dollar rises and emerging market economies' currencies deflate (and their economies slow). The fiscal stimulus phase of Great Recession 2.0 is now over. There'll be no further fiscal stimulus for households, as Fed monetary policy turns contractionary as well with rate hikes.

Longer run conclusion: whereas Great Recession 1.0 (2007-10) was precipitated by financial markets crash that pulled down the real economy in its wake, today's Great Recession 2.0 (2020-22) may experience a similar cause-effect but in reverse: real contraction 2020-22 followed by financial markets' contraction (late 2022-2023).

Read my commentary of the past week below on twitter noting the key developments for prices in wake of government's latest inflation report:

#Fed rate hike in March all but certain, as all Fed governors now lined up for it. Before rates drift up. Auto prices (new & used), houses, etc. to rise more next 2 months. Ditto as exports from China slow & US monopoly corps continue price gouging. Result: inflation continuing

#Inflation Republicans say its excess Demand from too generous stimulus. But stimulus ended in Aug-Sept. Inflation surged after. Dems say its supply. But oil, meat, grain, etc. corps have no supply problem. So what is it? It's monopoly corps price gouging to recover 2020 profits

#Inflation there's no shortage of domestic US oil supply. Yet US oil corps raised prices 29.6%! So not even supply supply driving oil, gas, energy inflation. So what is? Price gouging by oil corps (and other monopolies like meat producers, cereal-bread corps, etc. etc.)

#Inflation report today = 7% Dec CPI rise, so it's accelerating from Nov 6.8%. Big driver is oil/gas up 29.6% over year. So oil corps = biggest cause of supply side inflation today, just as in 1981 when OPEC oil supply shock caused inflation. Monopolies price gouging = main cause

#Fed raising Fed interest rates will actually exacerbate & worsen supply side driven inflation. It will mean less business investment, more worker layoffs and lost wage income to spend & more labor supply shortages—all of which will add to supply side inflation in coming months

#Fed using interest rate hikes to slow inflation is like using a sledgehammer to swat flies. Powell knows rate hikes won't check supply driven inflation. It won't take 18% Fed rate to provoke another recession in 2022. US economy more fragile. A 3% 10 Yr. Treasury rate will do it

#Inflation Biden & media saying inflation is abating. Another lie. Govt own data show inflation rising first week of January twice as fast as during last week of December. There's so much lying going on, from both wings of capitalist party—radical right/Republicans & Biden/media

#Inflation In 1981 inflation 10% due to supply side issues with global oil imports, caused by OPEC & Saudis. US response: get Fed to raise rates to 18%. Autos, housing, crashed. Investment & wages fell. Recession. Demand was used to address Supply cause. Fed planning same 2022.

#Inflation CPI up 7% again December-most since 1981. Inflation not slowing. So what's Biden proposing? More competition for monopolies like meat producers. When asked by nat'l media today what's being done about supply driven inflation, Biden's Director of CEA ducks the question

#Fed As inflation accelerated in 2021 Fed refused to raise rates. Now as wages try to catch up to prices, Fed says will soon raise rates =Fed trying to protect profit margins of corps & businesses, not really to stop inflation which is supply driven & rate hikes can't slow

#Wages Govt & Media hyping 4.7% wage gains past 12 mos. Say compares to 3% pre-covid. But inflation pre-covid 2%-2.5%. Inflation now almost 7%. So now Real Wages less than pre-pandemic.(Also 4.7% is 'average', so higher paid managers, tech, professionals getting > & others <4.7%)

#Fed signals will raise rates maybe as early as March, not next fall. Rate hikes to address supply side inflation work instead by depressing demand, jobs, wages, consumer spending-i.e. make workers pay for what is corp. driven supply inflation. Fed made same error in 1980-81

#Inflation Biden's says today: "We must get to the bottom of why farmers and ranchers continue to receive low payments while families across America endure rising meat prices". 'Get to the bottom'? Really? Biden means let's study & bury it. It's obvious food corps price gouging.

#Inflation Biden's answer to monopoly price gouging by food industry: govt give more \$ to smaller capitalists to create more competition. Translated: Inflation is just an excuse for govt to provide more subsidies to corporations. Real solution: price controls + tax big food corps

#Inflation meat & food prices up 20% so far. Biden says due to lack of competition: "Capitalism without competition isn't capitalism. It's exploitation" (wall st. journal 1-4-22). Since all food industry is near-monopoly, it's all capitalist exploitation.

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