

Fearful Effects of Inflation

By [The Mogambo Guru](#)

01/23/06 The Daily Reckoning PRESENTS: Do you hear that noise, dear reader? The faint wailing in the background that's getting louder and louder by the second? The wild increase in money and debt in the past twelve weeks has given our masked economist a case of the Screaming Mogambo Willies...

FEARFUL EFFECTS OF INFLATION

I knew something was wrong when I woke up Friday morning. Not only was my Wall Street Journal missing, but my wife was acting real nervous and suspicious, and the kid was hiding behind the couch. What was going on? I soon found out, and, as obviously predicted, was highly frightened to see that Total Fed Credit actually declined by \$17 billion last week! The ability, or actions, of the banks in creating money out of thin air was, gulp, lowered by \$17 billion dollars? In one week?

To be fair, reversing the excesses of the customary end-of-year monetary goosing by the Federal Reserve is pretty par for the course, as it happens every year about this time. But meanwhile, the money supply is still growing quite handsomely, as reported by Bill Bonner at The Daily Reckoning, who writes, "In the latest reported week, more than \$25 billion was added to the nation's money supply. If this were to continue, it would add more new money in 18 months than the present value of all the gold ever mined." Hahaha!

The money supply is going up faster than the growth in the economy, which means that prices will increase (to absorb all that money), and the supply of money is increasing, in one lousy year, more than the value of all the gold in the whole world? And now you wonder if gold is going to go up in price? Hahaha! It's not if gold will go up, but how much it is going to go up in price! And I am betting gold will go up a lot! And if it does not, then I will be surprised, because this would be the first time in all of history when gold did not rise mightily in price when faced with the enormous economic idiocies, like the ones that currently bedevil us, especially when using a fiat currency as money!

But we aren't here to talk about gold and how much money is going to be made in gold, although it is one of my favorite things to talk about. Instead, we were talking about the money supply, and almost as if by accident I happened upon the essay "The Fed's Money Supply Armament Is Underway," by Robert McHugh, which was posted on FinancialSense.com. He writes that the money supply figure known as M-3 "has been launched into outer space, up another \$56.3 billion last week, up \$92.4 billion over the past two. This is some real horsepower. Over six weeks," he says, M-3 is "up \$177.8 billion. These annualized growth rates are 28.7 percent, 23.6 percent, and 15.3 percent respectively."

As soon as I read that, I gulped, suddenly nervous and edgy. He then soothingly adds, "Those are the seasonally adjusted figures." I think to myself, "Whew! That was close! I coulda had a heart

attack!” Now I am starting to relax a little, because adjusting “seasonally” and “annually” are two of my favorite statistical tricks.

Seeing that I am temporarily distracted, suddenly Mr. McHugh springs the trap, and says, “The raw, non-seasonally adjusted, figure is up \$293.3 billion over the past 12 weeks, on a pace to add \$1.2 trillion in money to the economy.” Bam! Right between the eyes! Stunned, I had to read that sentence several times, as my mind kept refusing to comprehend what I was reading, probably because I was screaming in fear. This kind of wild increase in money and debt gives me a case of the Screaming Mogambo Willies (SMW). Then he says, calmly, “Wow.” That’s it. Just “wow.”

Outraged, I leap up and, utilizing my famous Mogambo Editor’s Pen (MED), write in big, red letters on the wall, “Exclamation points missing! Exclamation points missing, missing, missing!!!” And I am angrily stabbing the wall with the pen for additional emphasis.

In fact, now that I think about it, this will be my entry into this year’s hotly awaited contest, the “International Most Egregious Lack Of Exclamation Points Competition!” In Correct Mogambo Literary Style (CMLS), it should have read “Wow!!!!” which, when applied to economics, is your signal to buy more gold and wear a sidearm for the next couple of weeks, just in case. I urge these precautions because this kind of incredible, profligate, unbelievable monetary inflation means that we will get a corresponding price inflation after a just a little while, and people typically go berserk when they can’t afford to even live anymore because prices are so high, and then the kids start getting hungry and whiny.

But if you are sick of hearing me run my big, fat mouth and you want some hard, real evidence of inflation, read things like the article entitled “Energy costs drive US inflation” on the BBC.co.uk website. It read, “Wholesale prices in the U.S. rose at their fastest rate in 15 years during 2005, as the effects of soaring energy prices took their toll.” The fastest rise in price inflation in 15 years? My hands shake at the prospect.

The actual numbers are no picnic themselves, in that “The Labor Department producer price index (PPI) rose 5.4% in 2005, driven by a 23.9% hike in energy costs. For December, the PPI – which gauges price changes before they reach the customer – rose 0.9%, the biggest jump since September’s 1.7%.”

Not only that, but “Food costs moved up by nearly 1% in December, following a 0.5% November gain.” If you are a carnivore, then you’re in better shape than those poor vegetarians, who got clobbered in December as the price of vegetables “soared 22% during the month, the biggest gain in more than a year.” But even we vicious, meat-eating, super-predator omnivores are looking at inflation in food prices that are, annualized, 12% a year!

This is the stuff of Nightmares on Federal Reserve Street, which is not a movie, but if it was, it would scare the hell out of you, and you would die of a heart attack just from watching the fearful effects of inflation caused by creating too much money and credit, which is why they don’t make the movie.

And speaking of rising energy costs, Doug Noland passes on the news from the Financial Times, where Carola Hoyos writes, “The oil revenues of the Organization of the Petroleum Exporting Countries, the cartel that controls 40 per cent of the world’s oil supplies, will increase by 10 per cent to a record \$522bn this year, the U.S. Department of Energy forecasts.”

Now, I am sure that you noticed that they didn’t say that OPEC was going to be pumping 10% more oil, mostly because OPEC ain’t a-gonna be pumping no 10% more oil. And in fact, if Peak Oil is here, they will probably be pumping less oil. So, the increase in “oil revenues” that OPEC will be making must, by process of elimination, be because of higher prices. Yikes! So, prices are going to be 10% higher? Ugh.

Until next week,

The Mogambo Guru
for The Daily Reckoning
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Mogambo Sez: Mogambo, him say oil go up. Oil go up. Mogambo, him say gold go up. Gold go up. Mogambo him say silver go up. Silver go up. Mogambo, him big medicine. Mogambo now say too buy heap big oil, gold, silver.