

Fictitious Beneficial Inflation

By [The Mogambo Guru](#)

12/17/07 Apparently the United States is not the only place where inflation is running rampant. All around the globe, inflation is bearing down like a storm that doesn't show any signs of stopping. And sadly, there is one government that seems to be welcoming it with open arms. The Mogambo Guru ponders this curious phenomenon...

Doug Noland quotes Krishna Guha in the Financial Times as reporting, "In almost every corner of the world inflation is uncomfortably high, creating a giant headache for policymakers as they grapple with the threat to growth from the turmoil in global credit markets."

As an example, he cites various places as the source of things like, "In October consumer prices rose at an annual rate of 3.5% in the US, 2.1% in the UK and 2.6% in the eurozone – where November showed a jump to 3%. German inflation is at its highest in more than a decade. Prices are also gaining at an annual rate of 6.5% in China, with rapid increases in other emerging markets too. South African food prices rose more than 16% in October from a year earlier, a bigger jump than official figures show."

I am impressed to read that "the culprit" is identified; it's the same culprit as it always is, namely the battle between supply and demand, as "rising food and energy costs, underpinned by surging demand from those fast-growing developing countries."

The Really Weird, Weird Part (RWWP) is that the article continued, "An intense debate is under way in central banks across the world as to whether the recent rapid rise in food and energy prices will continue – and what, if anything, they should do about it."

Naturally, this news that central banks are unsure what they should "do" about soaring food prices, "if anything," makes me scream in outrage! I don't immediately jump to my feet, as it takes a few seconds for the appropriate amount of boiling anger to build up, especially considering that these selfsame stupid central banks are also ignoring soaring prices of every kind, and the amount of anger that is rising up in me is huge, like searing magma in an erupting volcano.

Horrified that I am getting upset, Mr. Noland quickly jumps in and says that Bloomberg also reported that, "European producer-price inflation accelerated in October to the fastest pace this year, boosted by a surge in energy costs and the biggest increase in food prices in at least 15 years. Factory-gate prices increased 3.3% from a year earlier, the most since December 2006, after rising 2.7% in September."

I took the news like I take a punch to the jaw; I cried and whined, and started begging for him to stop or I'd tell my mommy. No such luck, as he went on tormenting me by saying that Bloomberg also reported that, "Russian consumer prices rose more than expected in November

as fruits and vegetables became more expensive. Prices gained a monthly 1.2%, compared with a gain of 1.6% in October... Consumer prices rose 10.6% in the year to date." Yikes!

Let me get this straight; grumpy Russians, in the midst of a gloomy winter, are experiencing inflation in food prices of 1.2% in a month? And prices are up 10% in the last 49 weeks, meaning that prices are still rising like a rocket? Yikes!

Let me amend that as saying that not only are the Russians grumpy, but their government is a clot of halfwit lowlife scumbags, just like the USA and almost all of the other governments in the whole freaking world, as Bloomberg has someone named Maria Levitov reporting on this Russian thing, and her name sounds Russian, so it must be true, that the Organization for Economic Cooperation and Development (OECD) concluded that "The Russian government's 'massive additional spending' this year is pushing up inflation that is set to exceed the central bank's target 'by a wide margin.'"

My Tiny Mogambo Brain (TMB) was seized by the horror of the whole idea of "massive additional spending", and destructive 10.2% inflation in prices that is so terrifying that even the monumental stupidity of a central bank "targeting inflation" by actually pursuing policies that create inflation – some fictitious "beneficial" inflation – in prices is being exceeded! And by a "wide margin"!

Soon I am thinking to myself that this is such terrible news that I should not be out here in the open, and I should, instead, be securely locked down in the Mogambo Fortress Of Angry Solitude (MFOAS) against the inflationary horror that is descending down upon us like an incubus from hell, biting holes in your skin and sucking out your blood and guts.

Apparently, Ms. Levitov has been keeping an ace up her sleeve in case I ever succeeded in wresting control of the conversation away from somebody who knows what in the hell they are talking about, or at least does not have disgusting strings of spittle dripping off her lips and down her chin, and stuns me by reporting that, "Russia's inflation rate may reach an annual 12% this year, the Interfax news service reported today, citing Deputy Economy Minister Andrei Belousov."

In a panic, I run back to Doug Noland, which was a big mistake, as he has taken a look at the Fed's quarterly Z.1 "Flow of Funds" data, and he says, "I can't recall a report as intriguing as this one. In the face of mounting financial crisis, Total (non-financial and financial) Credit growth accelerated from Q2's 8.6% pace to a remarkable 11.1% annualized rate. The rate of Non-Financial Debt growth increased to 8.9% from 7.2%. The pace of Corporate Borrowings rose to 11.0% from Q2's 10.3%, while Household Mortgage Debt growth slowed to 6.8% from 8.0%. Federal Debt growth expanded at an 8.8% pace, up from Q2's slight contraction. The booming State & Local sector cooled somewhat, with debt growth reduced to 8.4% from Q2's 10.3%."

Too, too many horrible facts and figures like that have stunned me to insensibility, and apparently taking my uncharacteristic silence as an invitation for more of this horrifying news, he goes on, "Importantly, Domestic Financial Sector borrowings expanded at an alarming 15.6%

rate, up from Q2's already overheated 9.8%. The Banking, Money Fund, GSE and agency-MBS sectors all accelerated, expanding at double-digit rates."

In short, he says (ignoring my blubbering incoherence at this awful news), "I believe the key insight to be drawn from the Q3 2007 'Flow of Funds' is the recognition of the enormous scope of ongoing Credit creation now required to sustain the U.S. financial and economic Bubbles. In particular, I find it incredibly ominous that the Credit system has faltered so badly in the face ongoing financial sector expansion. Things can clearly get much worse."

Like when I finally regain my senses, I am going to be screaming and screaming and screaming in fear and outrage. So, yes, things can, and will, get much worse.

Until next time,

The Mogambo Guru