

December 30, 2008

No Lag When Indicating Inflation

by The Mogambo Guru

"And the reason is that the Lagging Indicator with its inflation detector attributes has been rising faster than the other two for as long as I can remember without doing the actual work to look it up."

"U.S. Leading Indicators Index Fell 0.4% in November" said Bloomberg.com, and then it was qualified with the comment that the fall of the Leading Indicator "for the fifth time in seven months" was merely "reflecting the worsening outlook that led the Federal Reserve to slash interest rates and pledge unlimited purchases of securities."

To make matters worse, first-time jobless claims are hovering around a 26-year high, which they explain as "elevated readings" that "indicate the labor market is deteriorating as the economy heads into a second year of a recession."

In fact, 6 of the 10 components of the Leading Indicator were down, using words like "slump", "plunging," and "record low."

And after all of that bad news, the only thing that actually made it a zillion times worse than it looks is that "A surge in the money supply adjusted for inflation, which has the biggest weighting in the index, prevented the gauge from falling even more. The measure added 0.6 percentage point!"

The sharper-eyed of you will no doubt notice the way I stuck an exclamation point at the end of the sentence to indicate special importance, which I think is actually understating the case, which is entirely uncharacteristic of me, as I usually go freaking berserk when it comes to such gigantic expansions of the money supply because it means gigantic rises in consumer prices!!

But this is not about inflation, but about indicators, which brings us to the Conference Board's index of Coincident Indicators, which is "a gauge of current economic activity", which also fell, by 0.3%. This is the index, in case you were wondering, that "tracks payrolls, incomes, sales and production," which are "the figures used by the NBER to determine the start of recessions", which, in talking about recessions like the one we are now officially in, they just found out started last year! Hahaha! Not very timely!

I will say that to be fair, this kind of pronouncement of recession, like announcing, "We're in a recession, just like The Loudmouth Mogambo (TLM) has been screeching about, over and over and over until we are sick of hearing it!" has to be calibrated in extreme hindsight to make sure that any change of trend is not some transitory statistical noise.

And so with such latitude, now the Conference Board sees that "The coincident index peaked in October 2007, two months ahead of the start of the downturn", which is kind of impressive in its own way.

But the most interesting indicator, as far as I am concerned, is their Lagging Indicator, because this one can be looked at as an inflation forecaster, and it is my primal fear of

inflation that is responsible for not only the Mogambo Bunker Of Crippling Paranoia (MBOCP), but the horror of price inflation is also at the root of my rabid insistence to buy gold, silver, oil and commodities with one hand and have as much defensive firepower as you can muster in the other.

And the reason is that the Lagging Indicator with its inflation detector attributes has been rising faster than the other two for as long as I can remember without doing the actual work to look it up.

But the point is not that I am a lazy guy who doesn't give a crap anymore, but that the Lagging Indicator is doing it again this month, as it actually rose 0.1%, which ain't much, but seemingly significant in the face of the other two indicators literally falling, and which have been falling for, again, as long as I can remember without, you know, actually researching anything or getting up off of my fat butt.

In case you were wondering, the Lagging Indicator index "measures business lending, length of unemployment, service prices and ratios of labor costs, inventories and consumer credit."

For those who are technically-oriented (and who isn't, to one degree or another?), I had never heard that "The end of the recession won't be signaled until the leading index and the ratio of coincident-to-lagging indicators turns positive for at least three months in a row", which was revealed by Ken Goldstein, an economist for the Conference Board itself.

Intrigued by the revelation, I thought that maybe since this Mr. Goldstein was so good at this stuff, his charts would have prompted him to say something like, "All you morons out there ought to do like Mogambo says, and start accumulating gold, silver, oil and commodities, because all of this freaking money that is being created Around The Freaking World (ATFW) is going to produce one hell of a big inflation in consumer prices and distort the economic landscape into something weird and Very, Very Ugly (VVU)!"

But he did not say that, and so that is why I am wasting your precious time by saying it now; buy gold.

And I really, really, mean it, too, as you can tell by looking deep, deep, deep into my bloodshot eyes and seeing my Utter, Utter Sincerity (UUS). Awesome, right?