

A Paralyzing Rise in Money Supply

By [The Mogambo Guru](#)

06/02/08 Sometimes hearing the most shocking news can have a paralyzing effect...and the Mogambo is living proof. Just ask him about the last time someone mentioned the rise in money supply. We dare you not to be stunned.

Adam Hamilton of ZealLLC.com reminds us that "Inflation is purely and exclusively a monetary phenomenon", which doesn't mean all that much by itself, but becomes much more horrifying when he adds that Money of Zero Maturity has been zooming. In case you were wondering, Money of Zero Maturity (MZM) is considered to be a reasonable proxy for watching the movement of M3, which is the broadest measure of the money supply, which is important because inflation in the money supply means that inflation in consumer prices is coming.

Now that we have the academic stuff out of the way, the truly horrifying part of it all is when Mr. Hamilton says, "Absolute annual MZM growth peaked at a staggering 16.7% in March 2008", and that "Bernanke's Fed has been ramping money-supply growth so fast that actual MZM is starting to look parabolic even on a short-term chart. In just over 2 years under him, MZM has ballooned 25.1% unchecked!"

Apparently, he mistook the look of sheer, paralyzing horror on my face at this revelation of such a massive expansion of the money supply (because it will lead directly to inflation in consumer prices), to be mere confusion on my part. Helpfully, he reiterated for my benefit, "You read that right. There were 16.7% more US dollars available for spending this March than last! Sooner or later all this excess money will eventually bid up prices. Some of this inflation will be perceived as good, primarily the part that flows into stocks. But the part bidding up scarce food and energy is not going to make Americans very happy."

He goes on to say that these rates of growth in the money supply "defy the imagination. At 12% growth compounded annually, it only takes 6 years for something to double. At 16%, this drops to well under 5 years. If the Fed doesn't stop this madness, there could be twice as many dollars floating around in 5 or 6 years as there are today. Even with modest economic growth, this means general price levels would probably almost double."

Prices that are doubled in five years? Yow! "And," he adds, "this inflation is totally above and beyond all the supply-and-demand-driven global commodities bulls' increases!"

And it is all because (as I never seem to tire of saying) of the over-creation of money by the Federal Reserve. Martin Hutchinson of The Bear's Lair figures that I am too narrow and provincial, and writes that apparently I am too stupid to realize that there is monetary insanity everywhere, and that "other countries have also been expanding their money supplies excessively. The European Central bank has allowed euro M3 to expand by 11.1% in the three months to March 2008, following an increase of 11.5% during 2007."

He goes on, "As in the United States, this increase is much faster than that of nominal GDP, and it had been continuing for several years, with annual growth rates of 7.4% in 2005 and 10.0% in 2006. Of the major emerging markets, China and India have both been operating expansionary monetary policies and now have considerable inflation problems. Vietnam, too, has been surprised in spite of its rapid growth by inflation surging towards 25%." Yikes!

Even more bad news is that "the Reuters CRB commodity price index is up 24% since September 18 last year", which means that prices are rising alarmingly, while this is at the same time as incomes are falling, as evidenced by "earnings in the financial sector, representing more than 40% of total US earnings before the crisis hit, have essentially disappeared in the last two quarters." Yikes!

I know firsthand what it means to have income disappear, mostly as a result of my pathetic "cry for help" of stupidly cashing my paycheck and somehow spending it all on drinking and gambling during one short weekend that is now mostly a big blank in my mind. When I got home and discovered that we had no food or money to buy any, the crap I had to take from my family over the next few months – and occasionally reminisced about to this day – was memorable, to say the least, and so I can only imagine the screaming and yelling and crying when "40% of total US earnings" disappears! Yow!

And I can only imagine the screaming, yelling and crying in the retirement sector, as all retirement funds take huge, huge freaking whacks and people learn, once again for the zillionth time in history, that investing in the stock market over the long-term is, at best, a loser for the majority of investors, and a loser for everybody at the worst, and all because of inflation in the money supply and the inflation in prices, which is the reason for my crying.

Mr. Hutchinson ignores my crying and blubbering about the horror of inflation that is starting to devour us, and callously increases my horror by saying, "In the United States, the producer price index increased 6.9% in the year to March, while that for crude goods increased more than 30%. Like a bowling ball swallowed by a python, that inflation will move through the economic system and eventually be reflected in consumer prices. Indeed, it may already be showing up there; the seasonally unadjusted consumer price index for March was up 0.9% (an annual rate of around 11%) and only a heroic seasonal adjustment of 0.6%, double the next largest seasonal adjustment for any month in the last ten years, brought the figure down to an acceptable 0.3%."

The biggest "seasonal adjustment" in the last ten years? And the best it can do is bring March's annualized inflation to almost 4%? We're freaking doomed!

Except, as I will add for the zillionth time, for the people who buy gold and silver...(hint, hint, hint.)

Until next time,

The Mogambo Guru
for *The Daily Reckoning*
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The Mogambo Sez: Each time that gold or silver go down, buy more until you have the stuff stacked all over the house and you are tripping over all the piles of silver and gold, bruising your shins, which hurts like hell.

If you don't, you will spend the rest of your life living in the dirt and wishing you had, begging for money and table scraps from those who did.

At least, that is how it has worked out in history! Hahahaha! Hey! This economics stuff is easy!