

Inflation in Spades

By [The Mogambo Guru](#)

06/23/08 No matter how you slice it, inflation is one of the worst things that can plague an economy. But for some reason, our very on Fed doesn't seem very intent on stopping it – or even slowing it down. Enter The Mighty Mogambo Guru...

The week was a bad one from start to finish, what with bonds selling off so much that, according to Barron's, "the yield on the two-year Treasury, which moves opposite its price, had the biggest weekly rise since '82." This means that the price of bonds went down! Think of it: trillions and trillions of dollars in bonds, and even more bonds all around the freaking world, all impacted by these huge sudden losses, the biggest move in 26 years!

Maybe this had something to do with the latest inflation figures from the Bureau of Labor Statistics, from which we learn the ugly news that the un-adjusted Producer Price Index for Finished Goods increased in price by 7.2% in May! At this rate, prices will double in 10 months! This is inflation in spades!

The door to the Bunker De La Mogambo (BDLM) automatically slammed shut at such terrible inflation news, accidentally trapping me outside and feeling very vulnerable, and I was so busy trying to claw my way back inside that I almost missed the news that producers of Intermediate Goods raised prices by 2.9% in May, which seemed a relief after that 7.2% Finished Goods report, but which didn't last but a second before we read that the Crude Goods index increased 6.7%! Gaahh!

And, lest we be misled by the facts that inflation is eating us alive, the new "official" rate of annual inflation from the government's wonks is 4.2%, which makes me laugh at the incongruity of the new BLS figures in relation to this. But this is horrendous news!

Hell, John Mauldin of FrontLineThoughts.com reminds us that 3% inflation was once considered so bad (and it is so bad) that "President Nixon instated price controls on the 15th of August, 1971. Inflation was a little over 4% at the time."

This terrifying news of rising inflation and rising bond yields had the curious effect of producing a sort of fight-or-flight reaction in the Mighty Manly Mogambo (MMM), in that I start involuntarily crying like a baby, screaming my guts out in fear and anger, and clutching my chest in agony as my heart was pounding, pounding, pounding, because the world is chock-a-block full of "black boxes" that have mysterious algorithms and equations to dictate buying and selling.

And every single one of these computers is now looking at the higher consumer prices and higher yields on Treasury bonds, and factoring them into the implied yields/returns of their various investment options, like stocks, and suddenly stocks and everything else look like the proverbial crapola.

And that explains a graph from the Federal Reserve, courtesy of BNP Paribas Economic Research, forwarded by Junior Mogambo Ranger (JMR) Phil S., showing the terrible news that growth in household real estate assets and growth in their financial assets have both plunged to literally zero! Zero! The chart goes back to 1960, and it has never, ever happened before!

In fact, the latest report is that the combined net worth of all U.S. households is \$56 trillion, which is (as Bill Bonner here at The Daily Reckoning notes with, I assume, controlled horror) less than the \$57 trillion accrued federal government's liabilities, meaning that we are technically bankrupt.

So, with wages stagnant, prices rising dangerously, government spending out of control, Federal Reserve creation of money and credit out of control, debts of every kind at record levels, and now this? My God! And you think that we're not freaking doomed?

Hahahaha! Thanks! I needed the laugh!

Until next time,
The Mogambo Guru for The Daily Reckoning
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The Mogambo sez: You have two choices. For one, you can buy silver and gold and watch in delight as it goes up in price as the value of the dollar goes down, and make delighted squealing noises ("Whee") as you wax rich.

Or you can not buy silver and gold (thus reducing demand and making it cheaper for me to buy your share, for which I say thanks!), and then watching in horror as the purchasing power of your precious dollars and dollar-denominated assets go down and down, making prices go higher and higher, month after month, until it reaches a crescendo and everything collapses in chaos and brutal mayhem, after which things really get really, really bad.

It's nice to have a choice, eh?