Consumer Price Inflation: The Wolf at the Door

By The Mogambo Guru

11/29/10 Tampa, Florida – I knew I was pretty sloshed when I started giggling about the perverse idiocy in which bankrupted governments wallow, as *The Wall Street Journal* had a nice headline that said it all: "States Raise Payroll Taxes to Repay Loans." Hahaha!

I mean, what kind of crazy crap is it when the government is so desperate for money that it is raising the cost of hiring people at the same time as 10% unemployment has, literally, decimated the workforce? This is crazy!

And as bad as it is being unemployed, this is at the same time that inflation is rising from the central banks of the world continuing to create so much new money, such an avalanche of new money, such a tidal wave of new money, so that their respective governments can deficit-spend it and provide bailouts to their Various And Sundry (VAS).

Oh, I've always had my fears about the inflation that comes from all this new money, and I knew that inflation would start showing up in real life as well as in my nightmares where prices are like ravenous wolves seeking to devour me, piece by piece, and while my neighbors are all around me being torn to pieces by the snarling rising price-wolves, I am whacking them on the head with a bar of gold, which gets bigger each time that a price-wolf takes a bite out of my leg, so that when I hit the wolf with it, I hit him so hard my leg grows back! Amazing!

I am sure that this is some kind of metaphor because of what I know about wolves, and I am not sure that I could successfully defend myself with a bar of gold against a pack of them, a knowledge gleaned from watching TV and reading books, one of which was the story of a single big, bad wolf devouring some old woman, whom I assume had a kitchen full of knives and cleavers to no avail, and a girl named Little Red Riding Hood.

Well, perhaps Little Red Riding Hood was British, as Britain seems to be leading the inflationary way. John Stepek of the Money Morning newsletter writes that their latest figures on inflation "came in at 3.2%."

Junior Mogambo Rangers (JMRs) have doubtlessly noted the understated punctuation used by Mr. Stepek to announce 3.2% inflation, as those Truly Fearful Of Inflation (TFOI) would use at least one exclamation point!

Thus, a re-write would be "the latest figures on inflation 'came in at 3.2%!'" followed by an explanatory, "We're freaking doomed!"

And things must be heating up over here in the USA, too, as James Turk of *The Free Gold Money Report* notes that "since the date of its March 18, 2009 QE announcement, the CRB

Continuing Commodity Index has risen 61.7%. Gold has risen 54.0%, while the US Dollar Index has dropped -7.2%."

Predictably, I would immediately use this as a handy springboard to Go Freaking Berserk (GFB) that inflation in prices was over 3%, which is the historical dividing line between saving yourself from death by inflation in consumer prices and dying a horrible death from inflation in consumer prices, a fact of such importance that common sense says it should rate at least one exclamation point!

But Mr. Stepek is made of sterner stuff, and calmly goes on to disguise the horror of "if you look at the breakdown of all the items included in the CPI, not a single item actually fell in price compared to this time last year."

This inflation is, of course, at the worst possible time, as he explains, "commodity price inflation at a time when unemployment is relatively high is stagflationary," which is keenly felt in that "Your wages don't rise to accommodate your rising cost of living, which is a grim situation to be in."

Again with the lack of an exclamation point! Perhaps he would not be so stingy with his exclamation points if I give him an example that he can relate to: Imagine the year 1965. If you were 20 years old in 1965 and worked for 45 years, you would now be 65 years old and ready for retirement.

So how much retirement money did you put away in1965? Well, according to thepeoplehistory.com, the average income in 1965 was $6,500 a year, so you put away 10%, which is $650 a year.

By comparison, a new car cost $2,650 in 1965, rent was $118 per month, and a loaf of bread cost 21 cents.

Today, the average income in the private sector is around $40,000 a year, which is about right, since the Bureau of Labor Standards says that inflation since 1965 results in $1 of buying power in 1965 now requiring $6.94, which comes out to an annual inflation rate of 4.4% per year.

If you saved a whopping 10% of your 1965 gross income, or $650 a year, it would have to grow by a whopping 4.4% a year to $4,510 just to keep up with inflation, which is, sad to say, about what 10% of your $40,000 income today would be ($4,000).

And this is before paying taxes on the $3,860 gain, and not to mention all the fees and expenses paid along the way!

In short, because of inflation, expenses and taxes, you have to invest a month's income to get a month's income at retirement, meaning that your money did not grow at all.

And that is the absolute best-case scenario, in that investing is a zero-sum game, and with the government always taking money out, and the financial services industry always taking money out, there is less money for the investors to divide amongst themselves than was put in by the investors! Hahaha! “Investing for the long term!” Hahaha!

And if you needed another reason to buy gold, as if you needed another reason to buy gold when then Federal Reserve is creating so much money, then the fact that gold has kept up with inflation, without all the hassle, is it! Whee! This investing stuff is easy!