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Inflation Heard Round the World

Rising commodity prices threaten global economy ... Australians naturally regard high commodity prices as good, but they are now reaching levels that pose a threat to the world economy ... A range of forces operates on commodity markets. The weather in Europe, the continuing strength of the emerging economies and, for some of Australia's commodities, the recent floods all play a role. A common factor is the rise of financial investment, which has surpassed the levels of 2008. In part, there is a simple recognition by investors of the China story, with commodities providing a good way to obtain leverage. But there is also a flight from currencies, which has seen gold double since late 2008 with a 20 per cent rise this year. Many investors seek alternatives to the euro and the US dollar. – The Australian

Dominant Social Theme: Prices are up. A little inflation is a good thing.

Free-Market Analysis: When the Bell began reporting on Chinese price inflation a year-and-half ago, it was unfashionable and uncomfortable news. But in fact, inflation is a BRIC phenomenon, and is not merely restricted to China. This has tremendous implications that are not being reported by the mainstream press. It means that other larger industrial economies – specifically India's Brazil's and Russia's – are in the throes of potentially destabilizing price rises that can derail the West's hesitant progress toward renewed economic stability.

The Anglo-American power elite that has been responsible for setting up the world's central banking economy is evidently and obviously worried about civil unrest. We have argued of late that the West's economic downturn is in a sense manufactured, but that it has been far worse than the elite imagined. As a result, the elite has been preoccupied with "managing" the Greater Recession – attempting to ensure that it does not engender an over-throw of the system, but is merely bad enough to generate a pretext for increased global consolidation.

Efforts at re-inflation taken by central banks around the world has been truly remarkable. Thus while prices have gone down and credit has contracted in the past two years, the larger trend of inflation gaining strength has not yet been adequately reported. What the mainstream press HAS reported on (see excerpt above) is commodity price inflation. This is perfectly congruent with our expectations; the arc of gold and silver price appreciation has to be put in SOME context after all.

Given that printing presses worldwide have been steadily occupied for several years, we are perhaps moving past any likelihood of sustained price deflation or disinflation (certainly for non-Western, major economies). The predictable consequences of virtually endless money printing will be endlessly inflationary. Inflation is, of course, a monetary phenomenon. And printing money does not necessarily trigger it in the short term, but the long-term consequences are disastrous.

Central banks around the world have been coordinating money printing in an attempt to re-stimulate the economy worldwide after the disaster of 2008. Printing yet more currency, and further distorting already moribund or over-stimulated economies just adds to the dislocation. The patient already lies bleeding on the rack. Monetary stimulation merely increases the pressure without providing real relief.

In 2008, the fiat money economy that featured the dollar as the reserve currency basically died. We know it died because the biggest Western banking institutions were technically insolvent in 2008. It took a massive infusion of cash – one we then estimated would reach US$100 trillion – to restart Western economies. (We think we're getting close.)

But even this amount of money merely provided liquidity and could not actually undo the damage caused by decades of economic distortion. The result is that the West, and especially Europe and America, remain in the throes of a jobless recovery, while the BRIC economies – the engines of the world right now – are entering a dangerous phase where price inflation (the result of monetary inflation) is threatening to race out of control.

When the Bell began reporting on Chinese inflation a year-and-a-half ago, it was not the fashion to write about it. China was an economic miracle and any inflation in that country was bound to be easily controlled – or that was the story, anyway. Today, China's price inflation woes are a steady drumbeat. The world has discovered (as we recently reported) whole "ghost-cities," built on speculation, empty and waiting for a population that may never come. You can see the story here: China: That Urban Empty Feeling.

Likewise, there has not much talk of Indian inflation and certainly not Brazilian inflation in the Western mainstream press. But the BRIC countries that having been driving the world with their economic performance are all beginning to overheat. Russia is in especially bad shape because that economy is already battered and citizens are not in a forgiving mood. There is unrest throughout Russia and it recently hit home with a series of violent protests in Moscow. Reuters reports the following:

The head of Russia's top lender Sberbank, German Gref, said Monday he expects the 2011 inflation at 9% or higher. "We do not expect inflation to exceed 10% but it is highly likely that it will be above the 9% mark," Gref told the Rossiya 24 TV channel. He said he does not see any chance for the 2011 inflation to get lower than this year's figure of approximately 8.5%. The Statistics Service said in mid-December that since the year start, inflation hit the 8.1% mark. Gref said GDP will grow by over 4% in 2011.

Then there is this report from BusinessInsider regarding India ...

Here's One Crop Exemplifying The Massive Struggle With Inflation In India ... India's struggle with food inflation may be evident in one crop with surging prices the government is doing its best to control. Onion prices have sent India's food price index soaring, up 12.13% as at December 11. The 2% jump in onion prices forced a ban on exports of the vegetable until January 15. India's government also cut import duty on onions.

Of all the BRIC countries, Brazil is perhaps the most stable in terms of labor peace. But that does not mean that Brazil is immune from price inflation. Like the other BRIC countries, Brazil's printing presses have obviously been working overtime and the results are increasingly obvious, according to Bloomberg:

Brazil Inflation Outlook for Next Year Rises For Third Week in Bank Survey ... Brazilian economists lifted their forecast for 2011 inflation for a third straight week, according to the median forecast in a Dec. 24 central bank survey of about 100 economists published today. Consumer prices will rise 5.31 percent next year, according to the survey, up from a week-earlier forecast of 5.29 percent. Prices will appreciate 5.9 percent in 2010, up from a week- earlier forecast of 5.88 percent, the survey found.

Price inflation is a problem in the West as well, but not an overwhelming one because money is not circulating with any ease. Once it does, however, conditions, in our view, may approach a kind of hyper-stagflation. We base this conclusion on the US stock exchange itself, which has seen a significant run-up now approaching 20 percent. Does anyone really believe that stimulating the stock market this way – by printing money – is a healthy way to go about generating an economic recovery? It may contribute to the bottom line of multinational corporations, but in the long run it is more likely to cause the aforementioned stagflation than a recovery.

The big story in 2011 should be the looming inflationary pressures that threaten to derail the BRIC countries that have proven an engine of growth. If inflationary pressures continue to build, BRIC countries will raise rates and even implement price controls (which China is already considering) in order to counteract price rises.

This worst-case scenario will likely depress the economic performance of BRIC countries and certainly in China, Russia and perhaps India could lead to significant civil unrest. Couple this with the austerity riots in Europe and the rising level of violence and dissatisfaction in America and it would seem there is the possibility of rising violence the world over. This is just what the Western elites fear and are working to avoid. But the only solution available to them is the blunt one of monetary policies – restimulation – and as we have just tried show above, it will likely cause more problems than it will cure.

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