

IS INFLATION THE PROBLEM? 2/9/2007

The Federal Reserve members continue the drum beat of inflation. Not one of them gives any credence to what is becoming more and more apparent: a possible tipping point toward deflation. Please keep in mind we are talking the price levels of goods and services, not asset prices. When it comes to asset levels, there is inflation galore. Just the other day Federal Chairman Bernanke made mention that he was more concerned about inflation than a slowdown in business. Others have echoed the same message. Some have even suggested that the next move in rates by the Fed might be upward in order to tame the angry beast.

Our last Web Buzz recited the declines in various indices of the recent fourth quarter GDP numbers. The following charts are further evidence of this same trend. Nothing, of course, proceeds in a straight line. Nonetheless, Doctor Copper is telling his own story about the goods economy. Lumber paints a picture of housing and other construction. Oil seemed on the road to nothing when cold weather (what happened to global warming?) and oil production cutbacks from OPEC came to the rescue. If we are correct about the trend of the economy, any upward corrections will be short-lived.



Copper

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Lumber

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Crude

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