Is Breakfast Now a Luxury Item?

With the wholesale prices of orange juice and coffee increasing by 20 percent and 41 percent respectively just over the past six months, it's not surprising to see the reflection in increased prices for them on grocery store shelves. Keith McCullough of Hedgeye asked "What's for breakfast?" and then answered "Inflation."

According to his sources and analyses, over the last six months cotton has increased 125 percent, sugar 82 percent, corn 59 percent, rice 40 percent, and oats 36 percent. Those increases were predicted by Gerard Adams of the *National Inflation Association* (NIA) in a special report published in November, which was featured at the time by Glenn Beck on his Fox television show. Prices for common everyday items were projected into the stratosphere, suggesting that "it will soon cost $11.43 for one ear of corn, $23.05 for a 24 oz loaf of wheat bread, $62.21 for a 32 oz package of Domino Granulated Sugar…[and that] a plain white men's cotton t-shirt at Wal-Mart will cost $55.57."

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That report, however, softened its startling predictions by pointing out that customers have (until recently) been reluctant to spend, and retailers have been reluctant to pass on these price increases. However, that is changing. The Food and Agriculture Organization (FAO) Food Price Index reached its highest level since records began back in 1990. FAO economist Abdolreza Abbassian confirmed that these "new figures clearly show that the upward pressure on world food prices is not abating. These high prices are likely to persist in the months to come." The FAO report then started blaming a series of bad weather events including cyclones in Australia, a major winter storm in the U.S., and flooding in Malaysia for the "spike" in wholesale prices. And these price increases seemed to catch establishment economists off guard. The *Associated Press* noted that in London, "The consumer inflation rate is well beyond the government's inflation target…" while the *Financial Times* exclaimed that "prices rose unexpectedly fast in November, driven mainly by the higher cost of staple consumer goods."

While Keynesian economists were looking in all the wrong places for an explanation of these increases, the author at *The New American* nailed it: "There's really no mystery s to why prices continue to increase. The Federal Reserve continues to create new money to supposedly bolster the economy, and every new dollar printed reduces the buying power of all other dollars already in the economy."

But why haven't prices risen long before now? The Fed started its massive stimulus programs more than two years ago, and the money supply as measured by the Fed's own charts has exploded from $1.4 trillion in 2008 to $1.8 trillion at present, and continues to increase as the Fed pursues its latest Quantitative Easing program. Only now are consumers beginning to see the impact of that explosion. When Harry Figgie wrote *"Bankruptcy 1995"* he pointed out that there is a delay between money supply expansion and the resultant inevitable price increases:

> We don't have to hire historians to see where deficit spending will take us. We have only to look around now: at South America…
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> Since the end of World War II, some of history's greatest national disasters have taken place right here in the Americas. North Americans used to laugh or shake their heads at the economies of the south that seemed always on the brink of collapse. Banana republics, we derisively called them. We're not laughing now.

In Brazil, the money supply was artificially increased for nearly five years before price increases started showing up on grocers' shelves. But when it did, those prices increased by 10 and 20 percent every month. Argentina's runaway inflation in the early '80's was preceded by enormous increases in the money supply by its central bank, but initially the price level actually declined for two years, prior to exploding to 50 percent a month. In Bolivia, the central bank employed "quantitative easing" for nearly five years before prices started increasing at the consumer level. But by 1985, inflation was destroying the currency at nearly 1,000 percent a month.

Students of the phenomenon of this "delayed reaction" can go to the Federal Reserve's own charts of the "money multiplier" to see that in the early part of the Great Recession, consumers held back from spending in spite of the increases in the money supply. But as consumers are beginning to spend again, one can see the "velocity of money" increasing greatly (see here and here). It is this inevitable pressure, spending the money that has already been created, that is now driving prices at the wholesale and retail levels.

How high can prices go? The proper question is, how long will the Fed continue to inflate the currency? Another 10 percent? Another 50 percent? Since the Fed began 100 years ago, the value of the American dollar has declined by nearly 97 percent. Put another way, the dollar is worth just 3 cents today. And most of that loss in purchasing power has taken place since 1971 when all connection with real money (gold and gold-backed bonds) was severed during the Nixon administration.

As Voltaire said, "Whenever paper is used as fiat currency, its value will eventually decline to its intrinsic value — zero."