



Written by [Thomas R. Eddlem](#) on July 15, 2009

CPI for June Jumps to 8 Percent Annual Rate

The *Washington Post* article heralding the increase sought to ease concern over inflation, and the author of the story, [Post reporter Neil Irwin](#), sounded very much like a financial reporter talking about how the housing market was solid in 2007. “The big jump was seen as a temporary blip, however. Inflation is not expected to be a problem any time soon given a severe recession which is keeping a lid on wage pressures. Underscoring the low threat of accelerating inflation, prices in June compared to a year ago were actually down by 1.4 percent, the biggest year-over-year decline in nearly six decades. ”



One indicator of future price increases is the “Producer Price Index,” which is a survey of costs manufacturers must pay to create their products. The Producer Price Index generally precedes the CPI by a month or two. And the Associated Press reported on July 15: “The Labor Department said its Producer Price Index jumped 1.8 percent last month in part because of higher energy prices. The increase was double what analysts had been expecting and well beyond the 0.2 percent rise in May.” That’s equivalent to a more than 20 percent annual increase.

But the reality is that the inflation has already occurred. The Fed [inflated the money supply more than 65 percent in the last quarter of 2008](#), and has doubled the supply of money over the past year. Inflation is defined as “an increase in the money supply,” and not an increase in prices (which is an eventual effect of inflation). As the [Federal Reserve chart](#) below demonstrates, the Federal Reserve has engaged in an historic inflation of the U.S. dollar over the past year:



That hyper-inflation of the U.S. dollar has already happened is common knowledge among world leaders, who obliquely chastised the United States for its inflationary practices at last weekend’s G-8 summit. “We will refrain from competitive devaluations of our currencies and promote a stable and well-functioning international monetary system,” G-8 leaders [announced](#) in a clear reference to the U.S. dollar. The declaration was also signed by Brazil, China, India, Mexico, South Africa and Egypt. World leaders know inflation has already occurred, even if U.S. consumers have yet to feel its effects.

It’s only a matter of time before that increase in the money supply filters out to increases in the CPI, though the banking crisis and the elimination of much of the banking inflation of the housing crisis has delayed that event.

The *Washington Post* is clearly wrong on inflation. Inflation isn’t coming; it’s already here. What’s coming are the dramatic price increases.



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