

Ditto

June 5, 2006

Every once in a while it pays to be lazy. That happened to us this week. There are so few deflationists in the financial community it is quite difficult to find a piece by another analyst as a substitute for ones own view. We found the following writing on Mish's website www.globaleconomicanalysis.blogspot.com. Please note his reasons for not falling into the inflation trap; they are exactly the same as ours. It sure is nice to find someone that agrees with us once in awhile. Enjoy!

Wages and Salaries

"We would need to see a lot faster wage growth -- growth at or exceeding the current 3% core CPI rate -- before I would think about buying a piece of the inflation is coming back story.



And while those kind of wage gains are not impossible I definitely don't see it right now. What we have, in other words, is almost pure cost-push inflation -- instead of the wage-price spiral that made the '70s such an interesting time to live through, financially speaking.

At some point, presumably when the extra disposable income derived from that last mortgage refi runs out, households are going to have to suck it in. Indeed it looks like it's already started -- retail sales are weakening and the Amazon-sized river of imports flowing in from points east (or west, if you live in California) has

actually slowed a bit.

Meanwhile, job growth has decelerated, jobless claims are creeping up and housing starts finally appear to be, well, stopping.

That indeed is the heart of the matter. I have been harping about this for what seems like ages. Everyone is in some sort of "Inflation Scare" AFTER 16 consecutive rate hikes. Does this make any sense? I suppose it does to those that are perpetually gloomy on the US\$ or US treasuries who probably now feel vindicated by this blip up in treasury yields.

It all comes down to wages and housing and jobs. Without meaningful rises in employment and wages, the former above the birth rate plus the rate of immigration (both illegal and legal), and the latter above the TRUE cost of living, inflation really does not have a chance. Yes at 1% we had sustainable inflation. An incredible housing boom was the result. The better question (looking ahead) is "What Now?"

Has Inflation Won Out?

I have been asked countless times what it would take for me to throw in my "deflation towel", oddly enough(or perhaps not) most of those questions have come in the last few months right on the verge of victory. Unlike Stephen Roach (a Morgan Stanley permabear who suddenly and without reason turned bullish about two weeks ago), I am not reversing course here.

Is that illogical? I think not. I have many times stated what will change my mind. It is really simple: "wage increases, job growth, and housing that does not bust". I see little reason to change course now. In fact, treasuries are probably a screaming buy."