

THOUGHTS ON PRICES AND THE CONSUMER

WEB BUZZ 2009.05.11

The year-over-year percentage change in the consumer price index has been negative over the last five months. The year-over-year percentage change in the producer price index has been negative for the last five months as well. However, as many gold bugs and stock market bulls point out, this includes food and energy. If one were to exclude these items, then the core inflation rates, although lower, would still reflect an increase in the cost of living. On the other hand, if housing prices were included in the CPI and PPI, then the indices would both be negative. One could go on and on with such theoretical adjustments to the actual reported figures. The point is that the trend toward lower prices remains well in place. There will, of course, be upticks from time to time, as no price movement shifts up or down in a straight line.

The price movements noted above reflect, in part, the lack of buying power on the part of the consumer. With that in mind, it was reported last week that March consumer credit fell at an annual rate of 5.2%. This was the largest decline since December of 1990. In total, consumer credit declined by \$11.1 billion, an all-time record.

The consumer, of course, is suffering from a lack of income as well as the reduced availability of credit. His wages are not increasing and, frankly, he is lucky to even have a job under present circumstances. Again last week, the employment report for April estimated that 539,000 people lost jobs. This was the 16th straight month in which such declines in employment have occurred. The unemployment rate increased to 8.9%. If one were to count those who are working part-time but who want full-time jobs as well as discouraged workers who have dropped out of the labor pool altogether, then the unemployment rate is 15.8%. Please note the charts below.

Chart 1. Unemployment rate, seasonally adjusted, April 2007 – April 2009

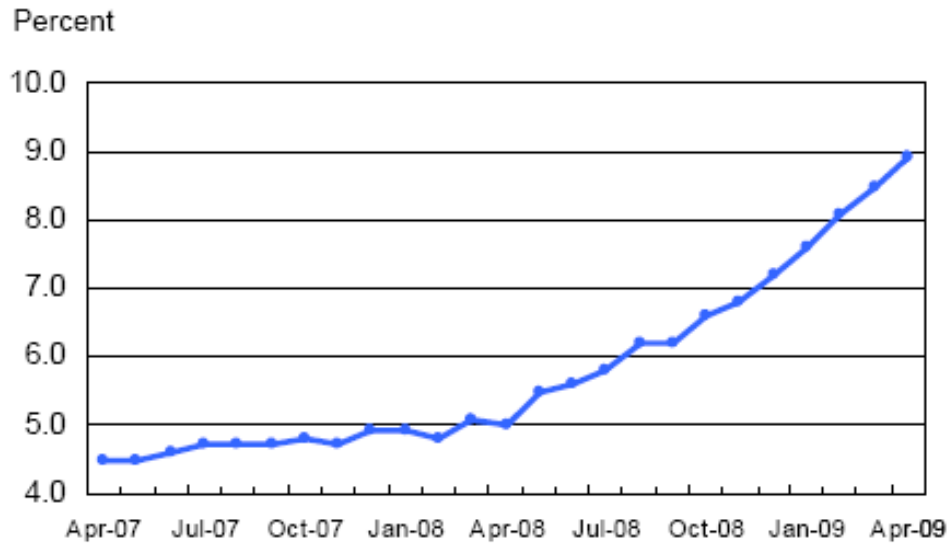
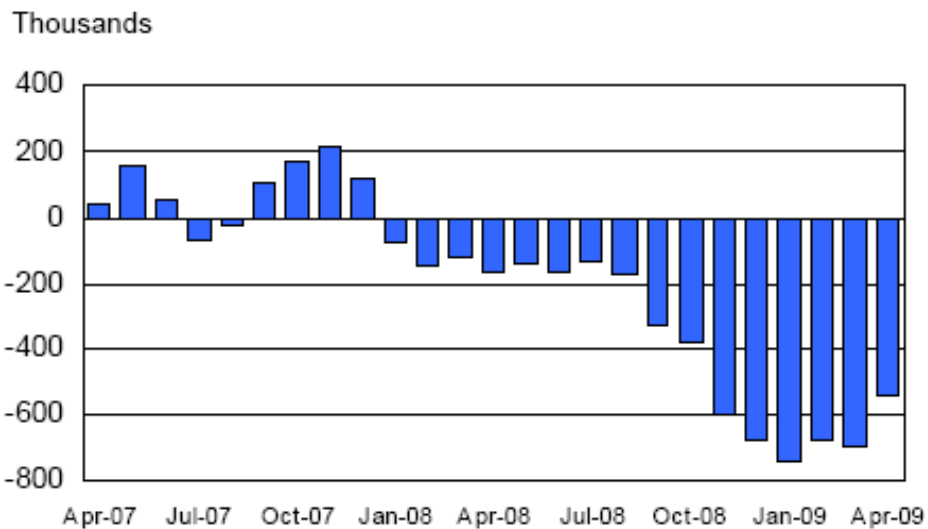


Chart 2. Nonfarm payroll employment over-the-month change, seasonally adjusted, April 2007 – April 2009



Charts Adapted from Mish's Global Economic Trend Analysis

Are all the “green shoots” that we have heard so much about, and which have the stock market revved up, going to bloom into beautiful flowers of recovery or, as we suspect, turn out to be weeds that need to be pulled?