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## Stagflation Exploding — Big Rate Cuts Soon

John Browne

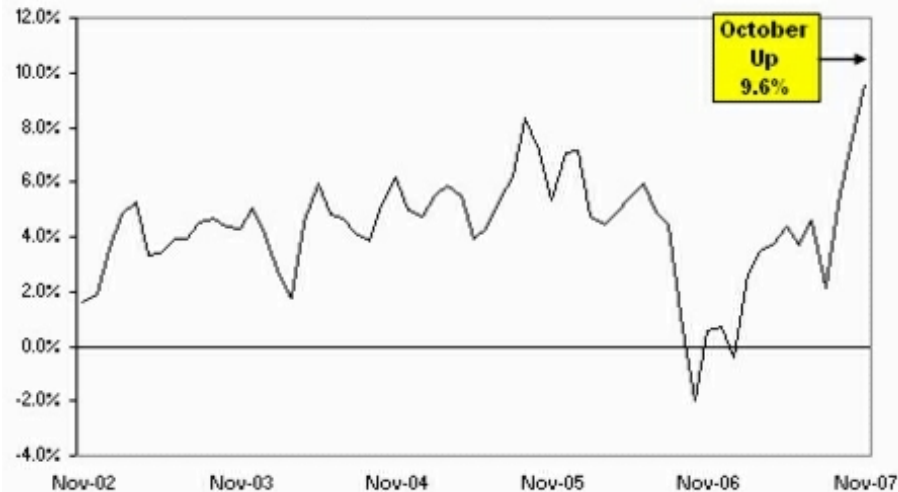
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Evidence is mounting fast that we are now entering a period of economic recession and mounting financial inflation at the same time.

Indeed, the latest annualized headline inflation is now running at 2.8 percent or, annualized, at a whopping 9.5 percent and still "politically cooked" to the downside.

Worse still, the producer price index for finished consumer goods (to be passed on either as higher consumer costs or reduced corporate profits) is now rising at some 9.3 percent. (See chart below.)

**PPI - Finished Consumer Goods: Year-over-Year Change**  
(Source of Data: U.S. Dept. of Labor)



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If you annualize that figure, just as all the Wall Street "cheerleaders" have recently done for jobs, retail sales and GDP growth, PPI inflation is running at a staggering 47.5 percent!



Talk about exploding. At that rate, gold could potentially go to over \$3,000 an ounce!

So, it appears that the stagflation I have warned of all year is now upon us — and growing — big time!

As the recent anemic 25 basis point rate cut showed, our Fed has completely lost the initiative in the fights against inflation, recession and the defense of our dollar.

In short, as I argue in the attached video, the Fed is now "check-mated," or boxed in, by the counter-veiling pressures of inflation and a weak dollar on the one hand (which calls for higher rates) and looming recession (which requires lower rates) on the other.

By failing to take firm in conjunction with the Treasury to defend our dollar and to stem stealth inflation for the past 18 months, our Fed is now faced with all three major evils at once.

**[Editor's Note: Bernanke Punishing the Dollar. More Profits Ahead.]**

Our Fed is now frozen in the box while our economy burns.

In military terms, it is like failing to deal with a divided enemy piecemeal. We now face simultaneous attacks on all fronts—not good!

In our sister publication, Financial Intelligence Report (FIR), we have warned our readers for years that the published, government inflation numbers are "politically cooked" to the downside and have been so since the rule of President Clinton, who developed this statistical cooking into a culinary art form.

Most of us who live in the real world of Main Street, eating food and using gasoline, heating oil and electricity, know that our "true" personal inflation is way, way above the official rate of just 2 percent.

We have termed this officially concealed inflation stealth inflation. I believe our Fed has long been aware of it, but was also aware than our economy has been in contraction for many months.

The Fed was therefore afraid to act for fear of causing an economic downturn. In November last year, we pointed to this yet again in FIR.

In our FIR of January 2007, we warned of recession ahead. Three months later, we warned of stagflation.

Over the past year, our warnings of stealth inflation, recession and of stagflation were greeted with widespread disdain and even ridicule by many media commentators. Now, TV commentators are talking about them — with apparent alarm and even surprise.

Consumer cyclicals, financials and utilities are commonly considered as "defensive" stocks. They are considered attractive in the late contraction phase of the economic cycle.

Lo and behold, "defensive" stocks are now rising in price, while most others are in downtrend. It is probable that, while they talk continued growth, the market pros may, in fact, be loading up on defensive stocks.

Richard Berner, chief economist at my old alma mater Morgan Stanley, described in Wealth Daily as the "resident bull," has issued a full recession alert and warning of the perfect storm to which we have alerted our readers, these past 18 months.

The much revered Goldman Sachs now see the chance of recession at almost 50 percent, even if the Fed cuts rates quickly by 1.5 percent!

Even Alan "It wasn't me" Greenspan (the person possibly most responsible for "check-mating" our Fed) now sees the U.S. economy as close to stalling!

With that pedigree of warnings, I rest my case that we are now entering recession and that the proof will come out when the fourth quarter figures are published in early 2008.

And make no mistake, the American economy is still a vital element of worldwide economic growth. A recession in America will cause a significant slowdown in the world economy, with certain commodities, possibly even oil, turning down in price.

Our readers will know that we have long warned of the housing bubble and the SIV-CDO debt problem. Initially, we saw every means in the book (and some not in the book) used to disguise the problem, including soothing words from government officials.

Now, we see not just continued revelations, but growing concern about the effects of the subprime debt problem.

All this calls for lower rates — much, much lower rates; like 1.0 percent, as Bill Gross of Pimco is calling for!

In other words, in order to prevent our looming recession from morphing into a deep recession, the Fed

must cut its rate not by a token 0.25 percent but by a meaningful 3.5 percent, or 14 times as much as they have done in the past week!

Not only that, but it is widely known that a Fed rate cut will take between 9 and 24 months to gain economic "traction." Therefore, if we are to avoid a deep recession, the Fed cuts must come soon!

**[Editor's Note: [John Browne Video: Rate Cut Surprise Coming](#)]**

Of course, to many people, such a realization will come as a shock. But then, for those still high on drugs, like negative (below the "real" or stealth inflation) cost and massive liquidity injections, reality is a shock.

Our Fed is now in a corner facing the gigantic problems of inflation and a subprime dollar calling for higher rates and the prospect of deep recession, calling for steeply lower rates.

The Fed's problem is now so big that it is no longer merely a financial or even an economic problem. It is a growing political problem, because both rampant inflation and deep recession can cause social unrest and trouble on the streets.

Following the 1929 stock market crash, paper money lost credibility and interest rates were kept too high for too long. This morphed the recession into the Great Depression of 1931, which lasted over 10 years.

At least some top politicians and central bankers (like Bernanke) will be painfully aware of this history.

My guess therefore, is that in the gigantic mental and political struggle that lies ahead, the conquest of recession will emerge supreme and central bank rates will be cut big time throughout most of the world.

Let us hope that the central bankers coordinate their efforts and avoid the morale damaging spate of competitive devaluations that occurred between 1929 and 1931, and that our U.S. dollar is saved from collapse, in the interests of world trade and political stability.

To achieve this, our Fed must come out of their corner fighting!

**Editor's note:**

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