Down and Dirty Daily Indicator Shows More Inflation Ahead
By John V. Kamin

As sort of a "sundial and thermometer" we check one indicator, the daily movement of the CRB (Commodity Research Bureau). While I don't feel this particular CRB indicator is as reliable as other larger economic tools, such as the LEI, the weekly government auctions of 180-day T-bills, CPI, and PPI, sometimes the CRB can give you daily clues, a "heads up" to quick surges up or down in commodity prices: portending early warning changes in inflation ahead, after the monthly statistics are compiled.

The CRB fluctuates daily. This economist's opinion? When CRB is over 230, ongoing inflation is underway. When CRB falls below 200, there is some temporary evidence of deflation or no inflation.

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In recent months, the CRB has been topping at 280 to 285 -- highly inflationary. Personally, I think the CRB is useful. I call it a down-and-dirty daily indicator. Right now, the CRB is suggesting to me that the ongoing inflation is due for substantial increases in both the Producer Price Index and the Consumer Price Index in the months ahead. However, do not hold your breath when the CRB indicator surges 10 points one way or another on a daily basis, as it is subject to short-term aberrations.

What Else is Ahead?

Another economic tool in our toolkit is the Index of Leading Economic Indicators or LEI. January LEI figures should be announced about the third week of February. Right now, LEI is a puzzle. The last half of 2004, LEI was signaling a possible recession, a top with a turndown beginning the second half of 2005. LEI got a bounce the previous month (Dec. 2004). But if LEI January figures, which will be announced shortly, show a sharp LEI decline, it makes the beginning of a recession from a top somewhere around summertime more likely. One true thing I've learned over decades of economic forecasting experience is, "Don't disbelieve your indicators".

STRATEGY: This is a good time to sell what you intended to sell anyway. In today's hot real estate market, "Sell your worst properties now, keep your best". This is also a good time to build some opportunity money.

REFI'S: This is an excellent time to substitute 15-year FRMs for higher cost or obsolete 30-year ARMs (Adjustable Rate Mortgages) just in case interest rates begin to soar again, and inflation ripples through the economy at a higher rate 2006-2007, recession or not ahead!

Greenspan and Crew Boost Rates

What's ahead for the FOMC (Federal Open Market Committee) of Federal Reserve Board? Will they continue boosting interest rates a quarter percent again at their next meeting? They've been edging up the Federal Funds Rate (rate at which banks loan overnight to each other) steady now to 2½ percent since June 2004 at 1 percent.

Prediction: I expect interest rates (FFR) to be boosted by the end of 2005 at least three more times during 2005 to 3 1/2% or higher by FOMC.

Forecast: This is likely to boost new mortgage rates higher during 2005 and induce higher monthly payments on ARMs.

Prediction: Since Uncle Sam is the world's biggest borrower, rising interest rates are likely to cost the government much more money and worsen budget deficits in 2005-2006 and 2007. How much worse? It's too soon to tell, but the trend is clear -- rates are going higher.

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