INSTITUTE OF INTERNATIONAL MONETARY RESEARCH

Analysis and insight into trends in money and banking, and their impact on the world's leading economies

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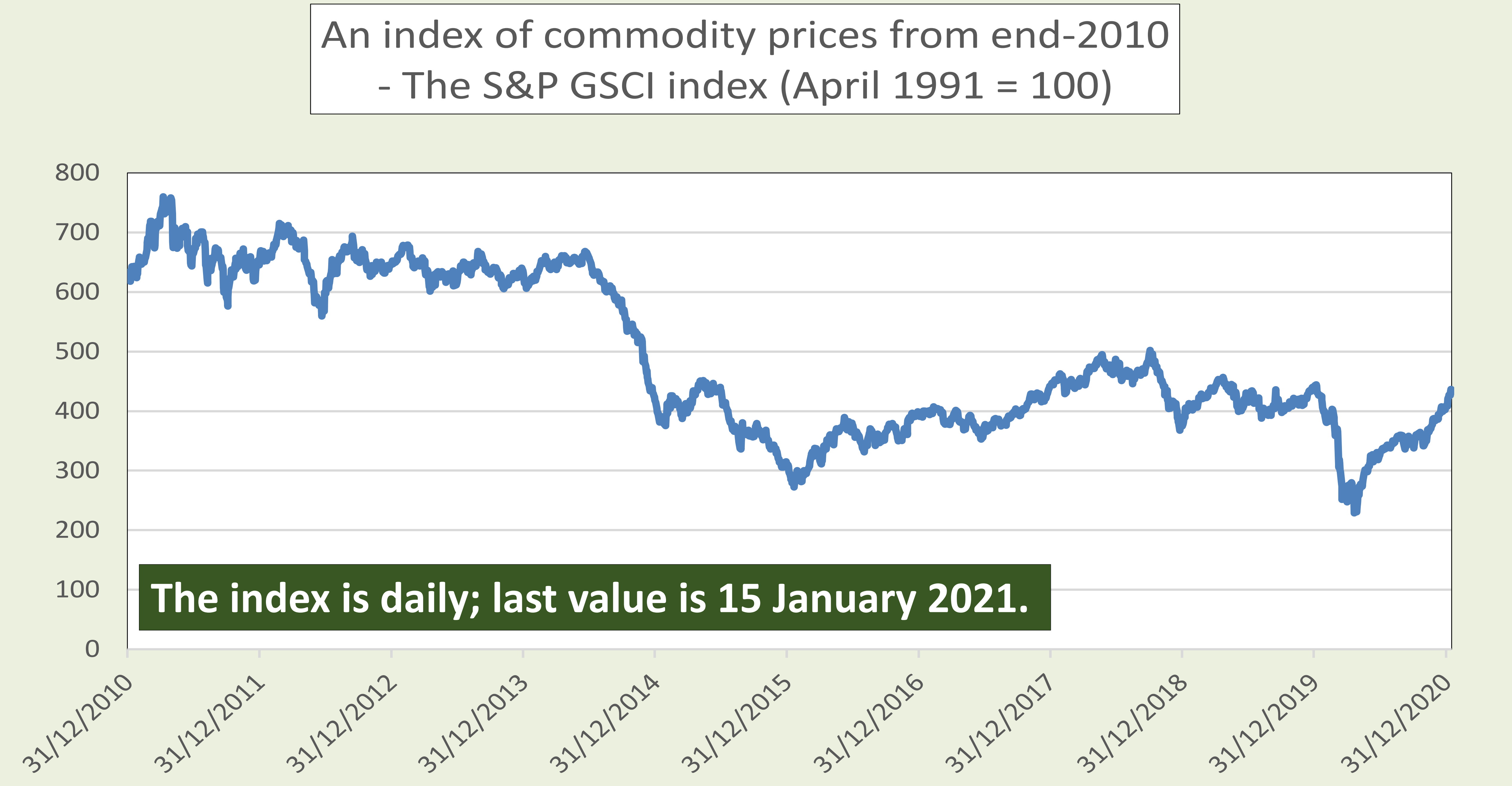
Surging commodity prices: what do mean for the 'inflation vs. deflation debate?'

January 2021 presentation

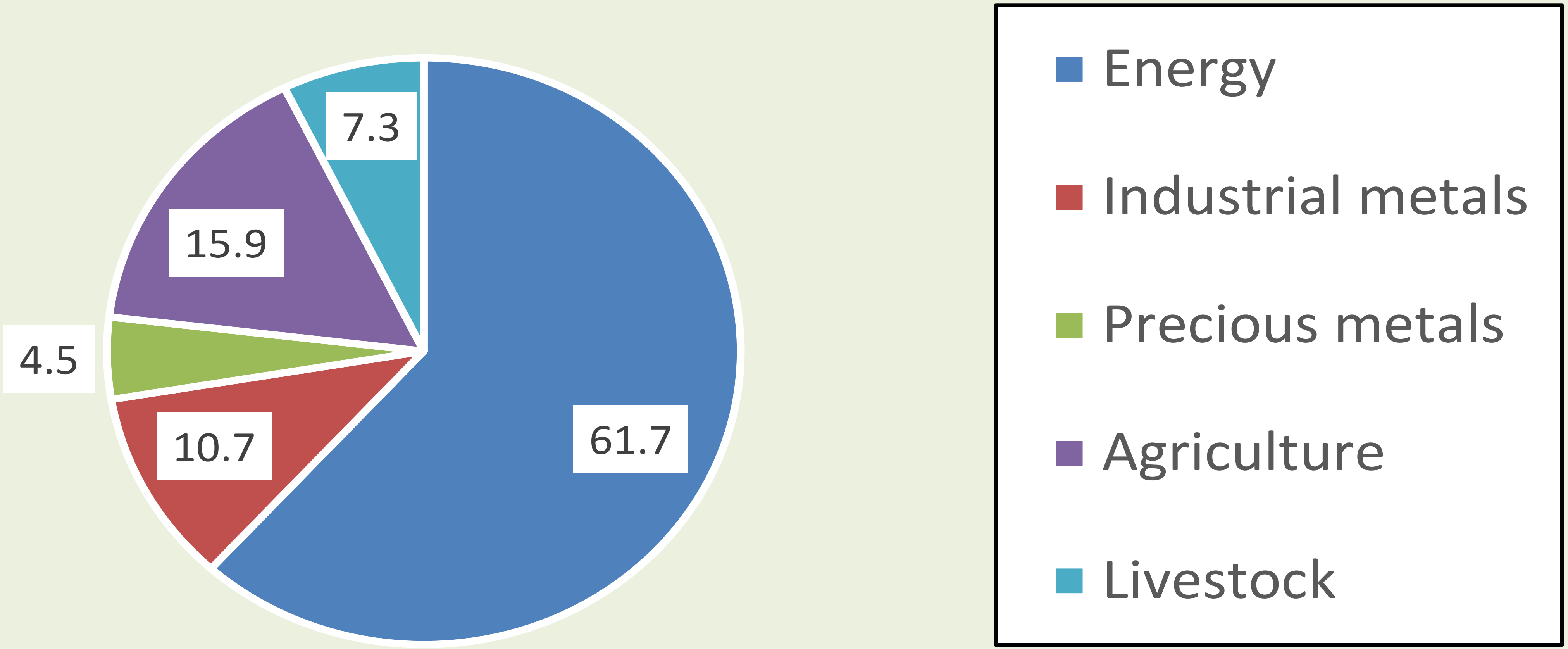
by Professor Tim Congdon CBE,

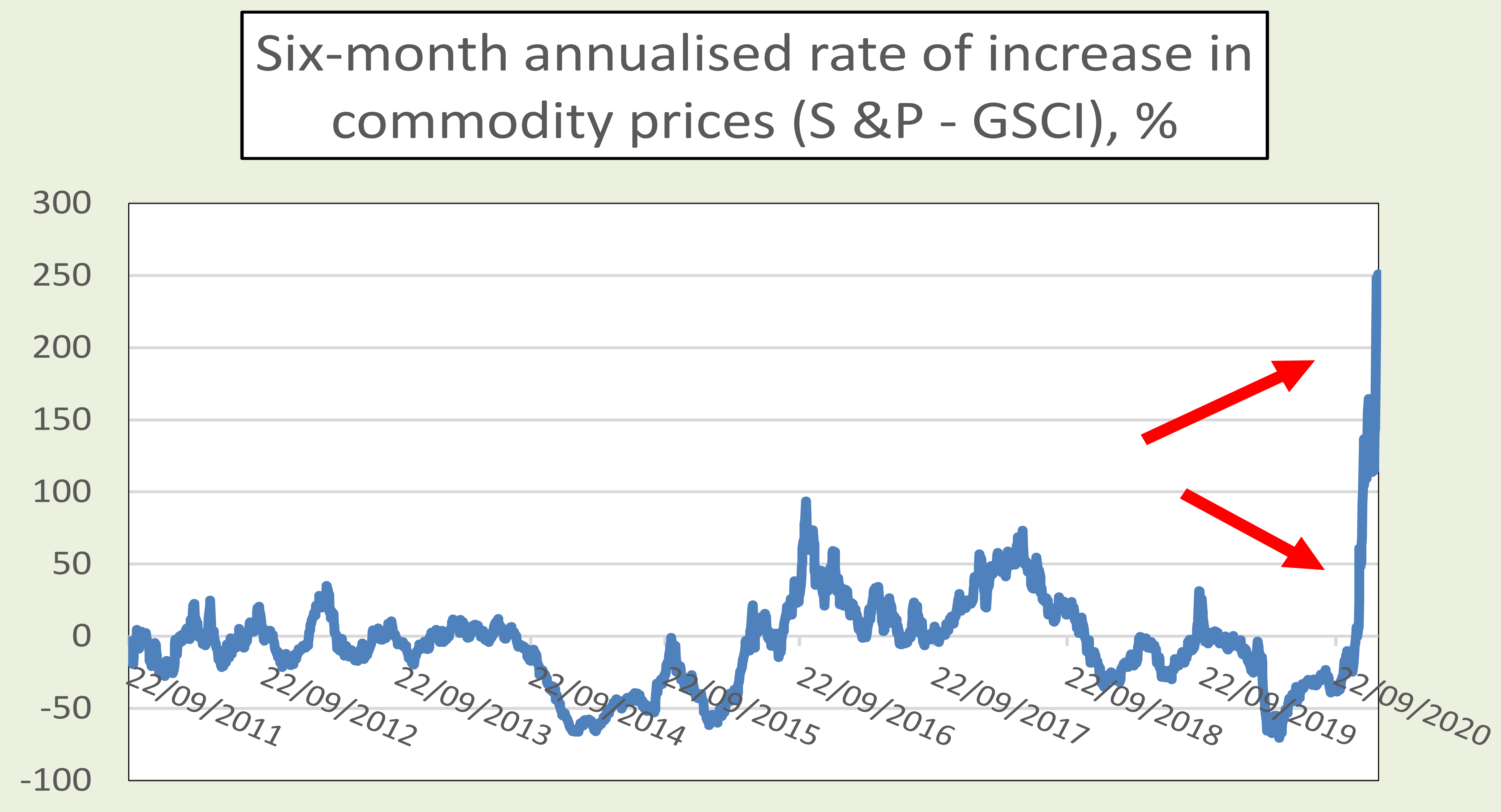
Chairman of the Institute of International Monetary Research

at the University of Buckingham

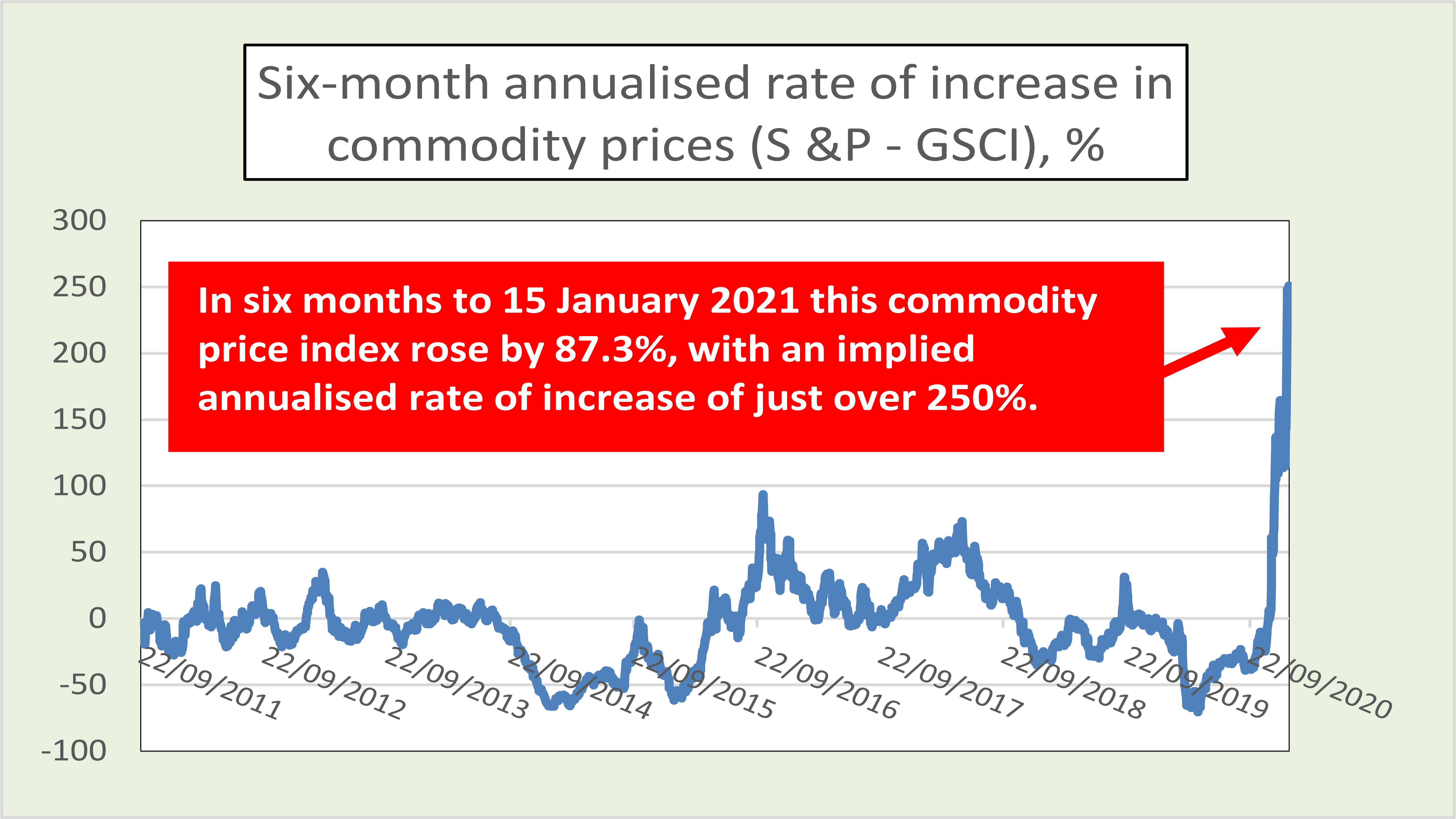

An index of commodity prices from end-2010 - The S&P GSCI index (April 1991 = 100)
800
700
600
500
400
300
200
100
0
The index is daily; last value is 15 January 2021.
31/12/2010
31/12/2011
31/12/2012
31/12/2013
31/12/2014
31/12/2015
31/12/2016
31/12/2017
31/12/2018
31/12/2019
31/12/2020

Importance of different commodity categories in S & P GSCI price index, in May 2020





Six-month annualised rate of increase in commodity prices (S &P - GSCI), %
300
250
200
150
100
50
0
-50
-100
22/09/2011
22/09/2012
22/09/2013
22/09/2014
22/09/2015
22/09/2016
22/09/2017
22/09/2018
22/09/2019
22/09/2020


Six-month annualised rate of increase in commodity prices (S &P - GSCI), %
In six months to 15 January 2021 this commodity price index rose by 87.3%, with an implied annualised rate of increase of just over 250%.
300
250
200
150
100
50
0
-50
-100
22/09/2011
22/09/2012
22/09/2013
22/09/2014
22/09/2015
22/09/2016
22/09/2017
22/09/2018
22/09/2019
22/09/2020

Lack of containers drives shipping costs to new high

James Dean
Chief Business Correspondent

Ocean freight rates have climbed to new highs as a shortage of shipping containers continues to squeeze the global market.

The average cost of shipping a standard container has risen by 20 per cent this year to more than $4,000, extending a rise that began in mid-November.

Shanghai, the world's busiest freight port, is suffering from an acute shortage

The rising price of trade

The cost of shipping goods to Britain from France, Italy and Poland has continued to climb since the Brexit transition ended.

Shipping costs between Britain and Germany also remained elevated in the second

Germany, Italy France and Poland accounted for nearly £128 billion of the £504 billion goods imported by the UK in 2019.

Shipping costs have risen since the imposition of a customs border between Britain

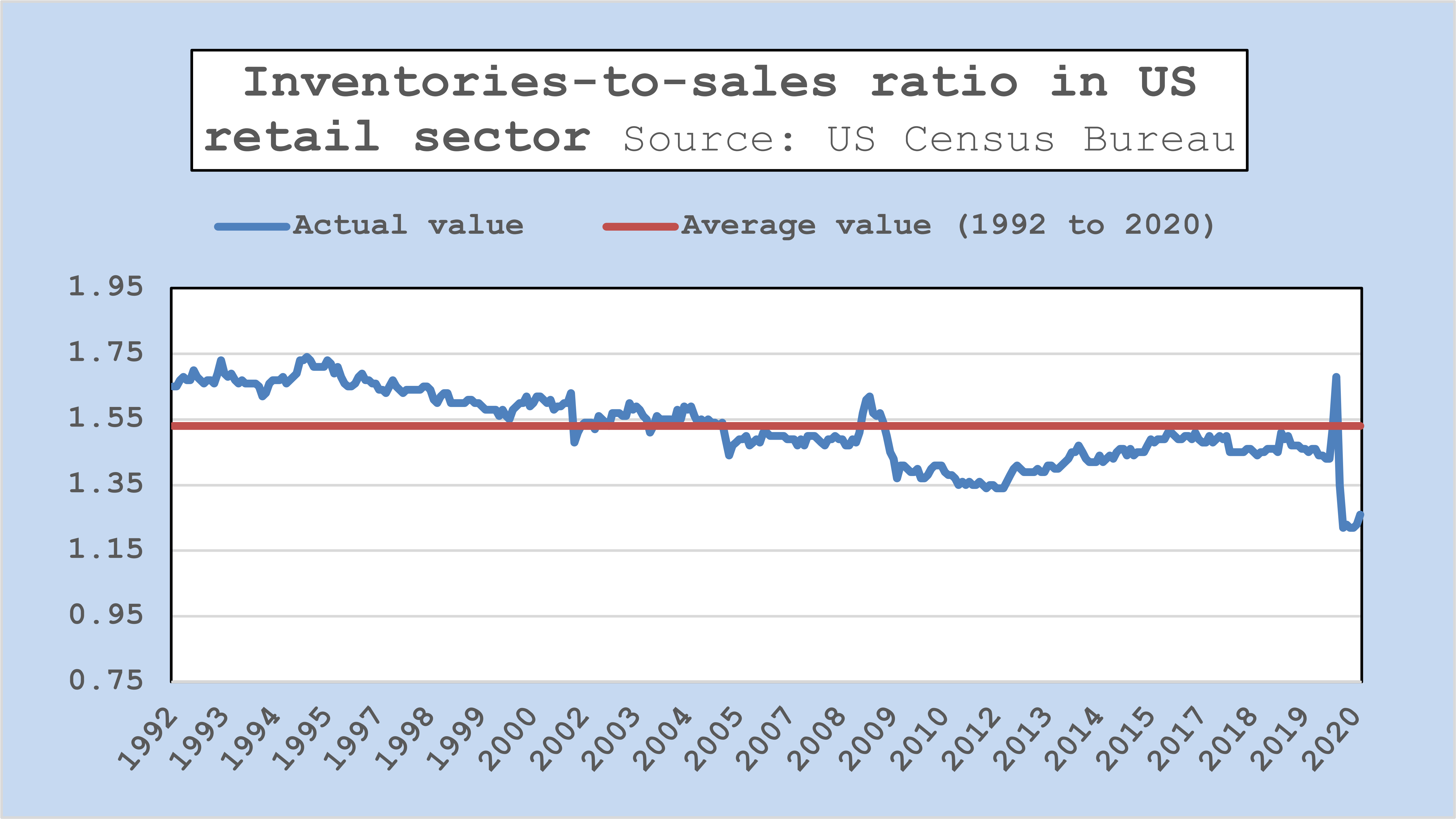
week of 2021 than the average for the third quarter of 2020, Transporeon said.

German freight costs, higher by 26 per cent in the first week of 2021, were up by 22 per cent in the second week. Italian freight costs were

year ago. A figure below 0.5 indicates that a port has a deficit of containers and a figure between 0.5 and 1 indicates a surplus. The further a port leans towards a deficit of containers, the likelier it is that shipping costs will rise.

Deficits in Shanghai and other Chinese ports have been borne out in ocean freight costs for goods from east Asia. On November 13 last year globally the average cost of shipping a standard container was $2,304, according to the Freightos Baltic Index. On the same day,

From *The Times* of 20th January, 2021


Inventories-to-sales ratio in US retail sector Source: US Census Bureau
Actual value
Average value (1992 to 2020)
1.95
1.75
1.55
1.35
1.15
0.95
0.75
1992
1993
1994
1995
1997
1998
1999
2000
2002
2003
2004
2005
2007
2008
2009
2010
2012
2013
2014
2015
2017
2018
2019
2020

The Institute's view on US inflation:

"But the balance of probabilities – and hence our central expectation – has to be that the annual increase in consumer prices in one or all of the USA, the Eurozone and the UK exceeds 5% before the end of 2022." E-mail of 18 December

The latest developments on commodity prices suggest to us that in the first half of 2021 US factory -gate inflation will reach 3% - 5% and US consumer inflation of 2% - 3½% is also to be expected.

How wrong can you be? –

Initial responses by top mainstream economists to the Covid-19 pandemic – **Olivier Blanchard**

- 24th May 2020 column for the Vox CEPR Policy Portal, under the title, 'Is there deflation or inflation in our future?'.

"Will falling commodity prices, stumbling oil prices, and a depressed labour market bring low inflation and perhaps even deflation, or will very large increases in fiscal deficits and central bank balance sheets bring inflation? **This column argues that it is hard to see strong demand leading to inflation.** Precautionary saving is likely to play a lasting role, leading to low consumption, and uncertainty is likely to lead to low investment. The challenge for monetary and fiscal policy is thus likely to be to sustain demand and avoid deflation…"

How wrong can you be? –

Initial responses by top mainstream economists to the Covid-19 pandemic – **Richard Clarida**

- Remarks by Richard Clarida, Vice-Chair, Board of Governors of the Federal Reserve System, at the New York Association for Business Economics - New York 21st May 2020

"In terms of inflation, **my projection is for the COVID-19 contagion shock to be disinflationary, not inflationary**... While the COVID-19 shock is disrupting both aggregate demand and supply, the net effect, I believe, will be for aggregate demand to decline relative to aggregate supply, **both in the near term and over the medium term. If so, this decrease will put downward pressure on core inflation**..."

How wrong can you be? –

Initial responses by top mainstream economists to the Covid-19 pandemic – The FOMC

A view from the Federal Reserve's Open Market Committee

- *From the* Minutes *of the 9 – 10 June meeting:*

"The [forward-looking] simulations [from the Fed's research staff] suggested that the Committee would have to maintain highly accommodative financial conditions for many years to quicken meaningfully the recovery from the current severe downturn."

- Notice the phrase ***"for many years"***.

How wrong can you be? –
Initial responses by top mainstream economists to the Covid-19 pandemic – **Gavyn Davies**

The titles of two pieces by Mr. Davies in the *Financial Times* in 2020,

- 26th April, ‘The deflation threat from the virus will be long lasting’

How wrong can you be? –

Initial responses by top mainstream economists to the Covid-19 pandemic – **Trevor Jackson**

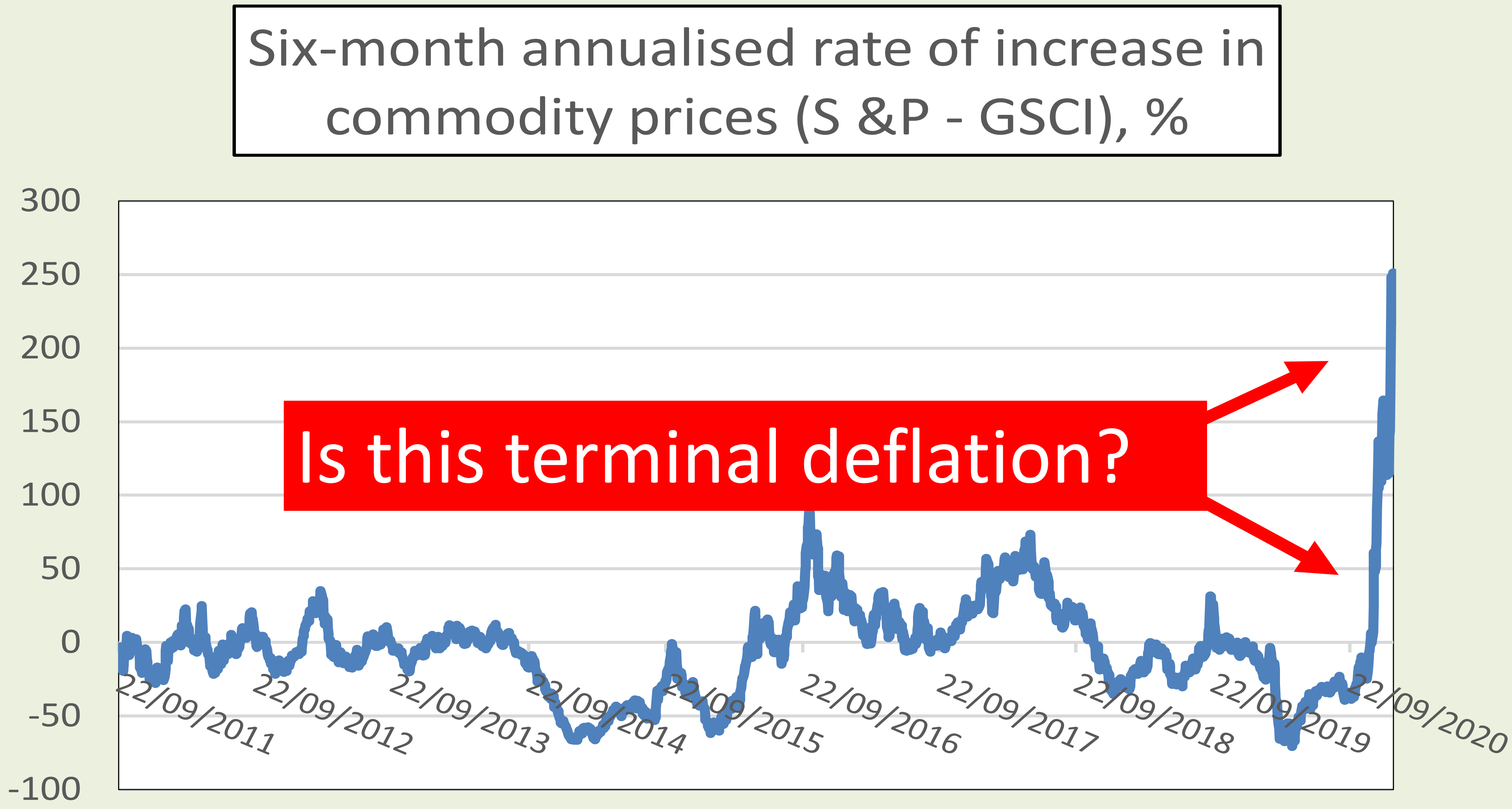
Written in a month – a mere one month – when the US M3 quantity of money rose by 7%.

- 29th April 2020 article in *Foreign Policy*, under the title

‘Terminal deflation is coming’

“Economic history suggests that **deflation, not inflation, is by far the more likely** – and in some ways the more dangerous – destination of the Fed’s current trajectory**...[A] feedback loop of economic paralysis**.”

(Trevor Jackson is an assistant professor of economic history at George Washington University, where he teaches the history of inequality and economic crisis.)


Six-month annualised rate of increase in commodity prices (S &P - GSCI), %
Is this terminal deflation?
300
250
200
150
100
50
0
-50
-100
22/09/2011
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22/09/2014
22/09/2015
22/09/2016
22/09/2017
22/09/2018
22/09/2019
22/09/2020

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The coronavirus pandemic is inflationary

A presentation by Professor Tim Congdon CBE,
Chairman of the Institute of International Monetary Research,
in March 2020

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Will the coro
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A presentation by P
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The coronavirus pandemic, the quantity of money and asset prices

May 2020 presentation
by Professor Tim Congdon CBE,
Chairman of the Institute of International Monetary Research
at the University of Buckingham

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Putting the coron
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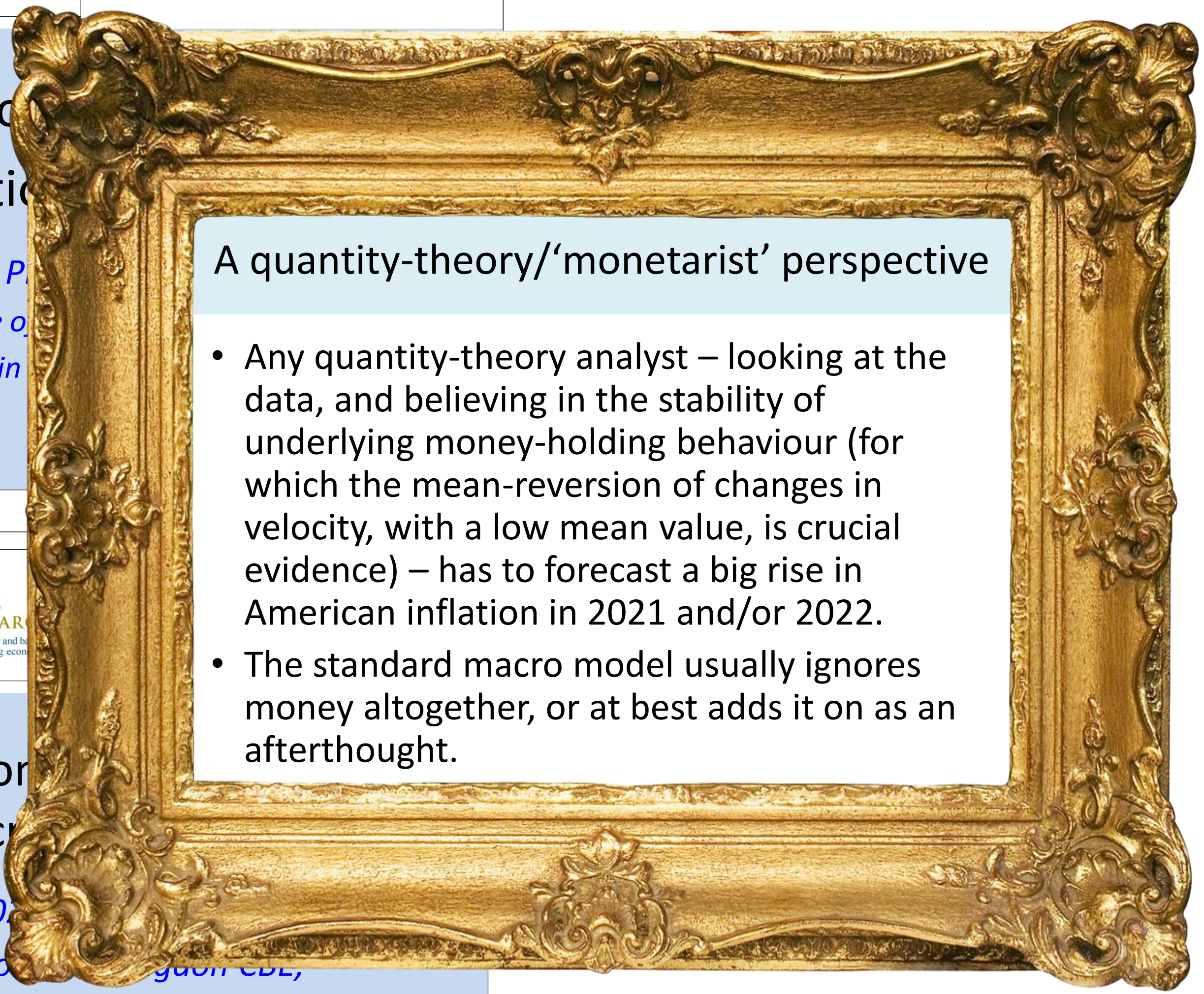
July 20
by Professo
Chairman of the Institute of International Monetary Research
at the University of Buckingham



A quantity-theory/'monetarist' perspective

- Any quantity-theory analyst – looking at the data, and believing in the stability of underlying money-holding behaviour (for which the mean-reversion of changes in velocity, with a low mean value, is crucial evidence) – has to forecast a big rise in American inflation in 2021 and/or 2022.
- The standard macro model usually ignores money altogether, or at best adds it on as an afterthought.

A quantity-theory/'monetarist' perspective

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- **The standard macro model usually ignores money altogether, or at best adds it on as an afterthought.**

From our July 2020 video presentation

America must spend big to avoid pain later, says Yellen

Philip Aldrick Economics Editor

America needs to "act big" with massive spending to battle the pandemic because restraint would be a "false

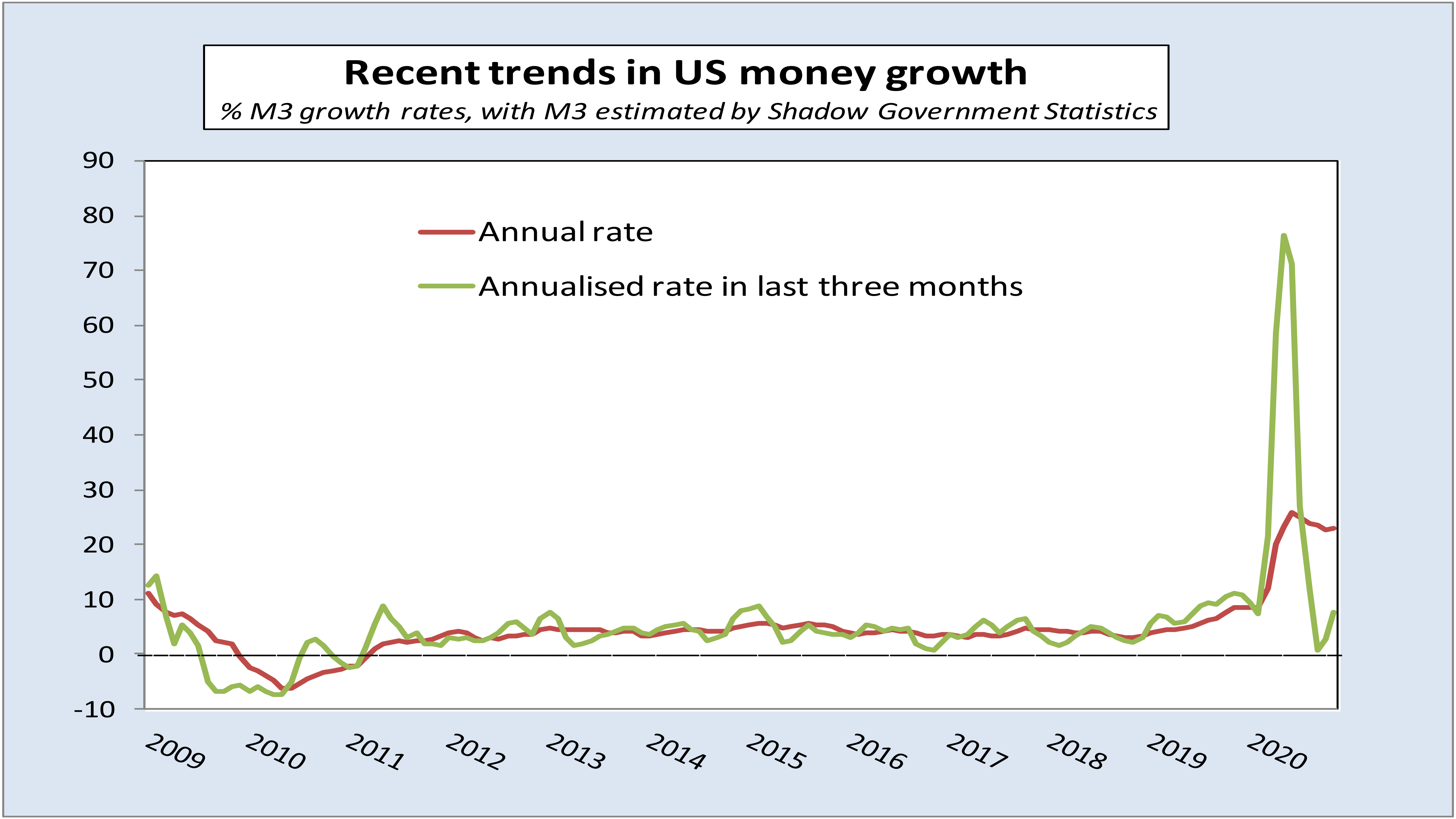
ity would be to push through Joe Biden's $1.9 trillion relief package, she said: "Without further action we risk a more painful recession and longer-term scarring later . . . that can harm the long-

pledged to preserve a strong dollar — comments that were a direct rejection of President Trump's efforts to debase the currency to help US exporters. At the Fed she came under pressure from Mr

she said. "I believe in market deter-mined exchange rates. The US does no seek a weaker currency to gain compet itive advantage and we should oppos attempts by other countries to do so."

From *The Times* of 20th January, 2021

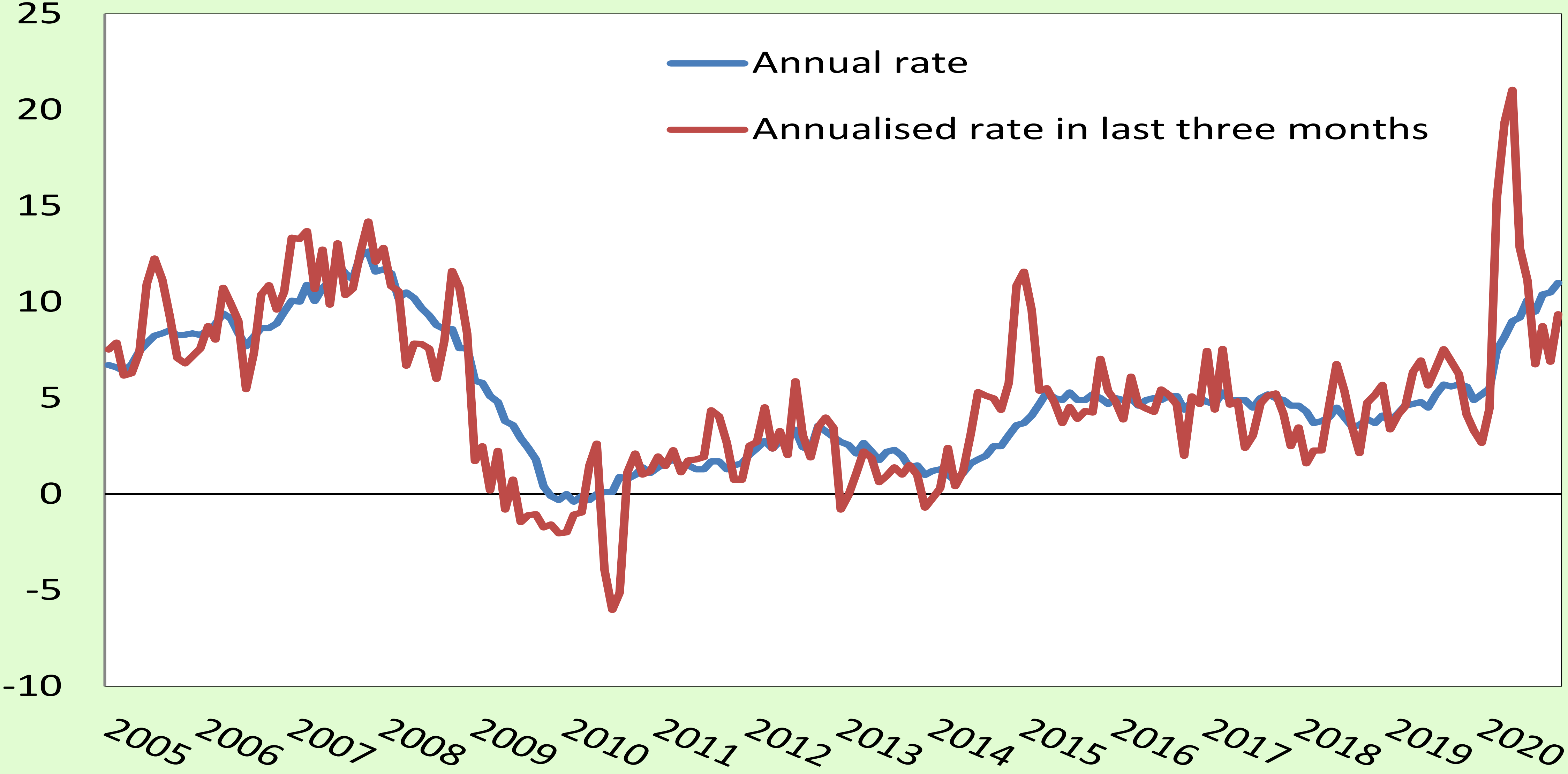
THE TIMES
THE SUNDAY TIMES

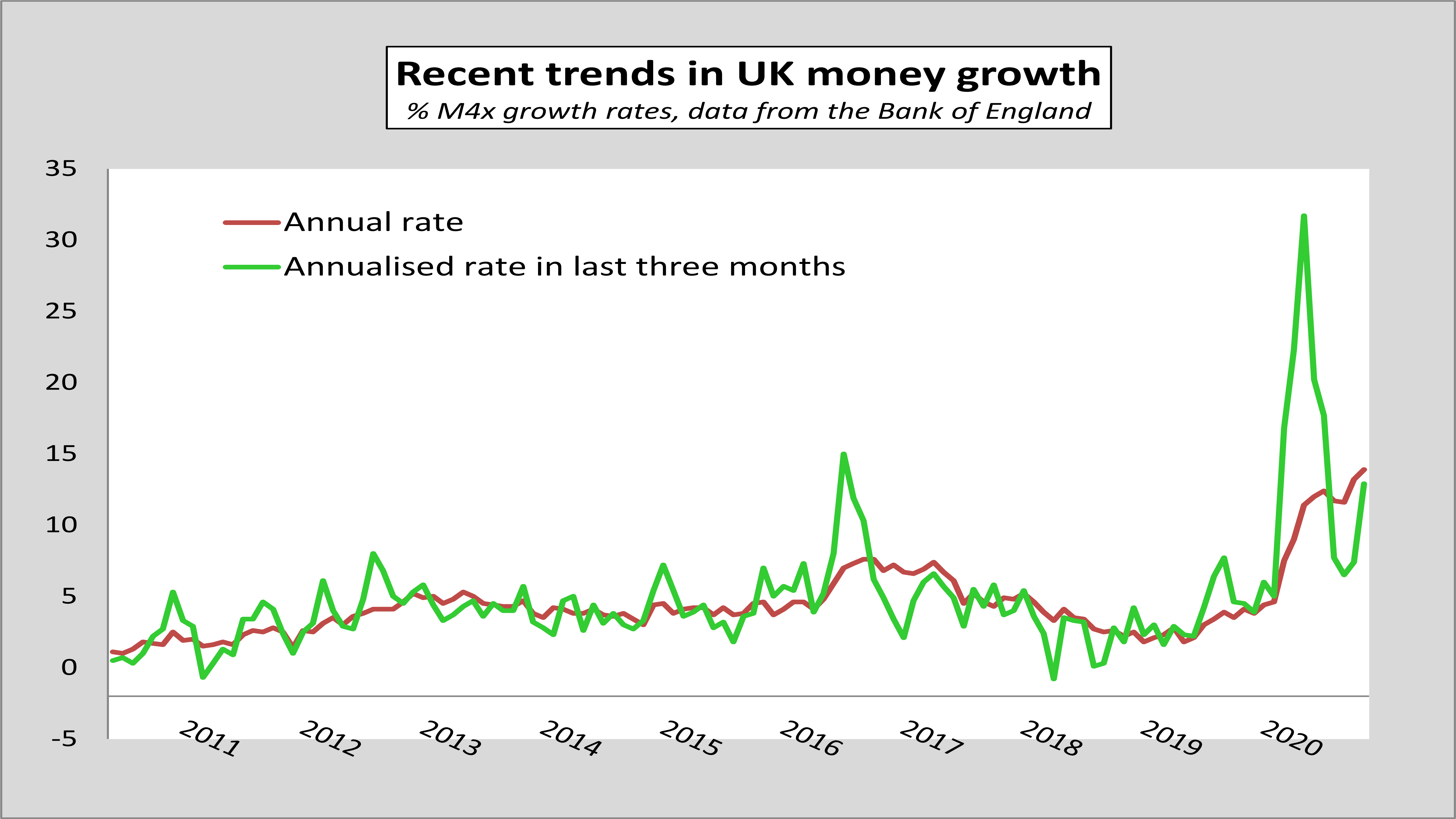


Recent trends in US money growth
% M3 growth rates, with M3 estimated by Shadow Government Statistics
Annual rate
Annualised rate in last three months
90
80
70
60
50
40
30
20
10
0
-10
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020

Recent trends in Eurozone money growth

% M3 growth rates, data from the European Central Bank





Recent trends in UK money growth
% M4x growth rates, data from the Bank of England
Annual rate
Annualised rate in last three months
35
30
25
20
15
10
5
0
-5
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020