

# Is There Too Little Inflation?

## Consumer prices

Change from previous year, not seasonally adjusted



By Harlan Green / Special to VOICE

**T**HE CONSUMER PRICE INDEX FOR ALL URBAN CONSUMERS (CPI-U) declined 0.1 percent in December on a seasonally adjusted basis after being unchanged in November, the U.S. Bureau of Labor Statistics reported recently. Over the last 12 months, the all items index increased 1.9 percent before seasonal adjustment.

The major reason has been falling gas prices. Energy fell 3.5 percent in December as gasoline prices dropped for a second straight month, down 7.5 percent. Transportation costs in general slipped as airfares continued their decline, down 1.5 percent on the month following a 2.4 percent drop in November, according to Econoday.

It's also why we have such low interest rates, which actually mirror the amount of excess savings. No matter how much individuals and businesses have borrowed since the Great Recession, interest rates have stayed where they were. It's as if there's a bottomless supply of liquidity that holders of said currencies—including most of the world's central banks—are eager to put to work in some way.



Why such low inflation with booming economic growth? This could also be a worrisome indicator of what economists call slack demand. Consumers and businesses are spending less and saving more, in spite of the U.S. economy being fully employed with a 3.9 percent unemployment rate. The overall demand for goods and services has fallen from historical levels since the Great Recession, as consumers and businesses have become more cautious than in other recoveries, and as consumer economic activity now determines some 70 percent of economic growth.

This is while household incomes have barely kept up with inflation for decades from the progressive weakening of employee bargaining rights since the 1980s, and may only now be increasing with the full-employment economy.

Former Fed Chair Janet Yellen has entered the discussion with her prediction that the U.S. is stuck in a low-inflationary environment. "All evidence suggests we're going to be in an environment of low interest rates for a long time," she said at a recent tech conference.

Such slack overall demand could also be a problem because the Trump trade wars are pushing up the cost of materials. This is hurting U.S. sales overseas, because U.S. export firms have had to raise their prices due to the rising costs of imported materials, such as aluminum and steel that have ten and 25 percent tariffs, respectively.

Such low inflation is, therefore, a two-edged sword in many ways. Lower inflation means products are more affordable to larger segments of the population, but it is also a sign that producers cannot boost profits without prices rising, hindering their growth prospects.

All-in-all, this means such stubbornly low inflation can also mean lower prospects for future job growth, hence lower economic growth, as well.

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**Harlan Green** has been the 16-year Editor-Publisher of PopularEconomics.com, a weekly syndicated financial wire service. He writes a Popular Economics Weekly Blog. He is an economic forecaster and teacher of real estate finance with 30-years experience as a banker and mortgage broker. To reach Harlan call (805)452-7696 or email [editor@populareconomics.com](mailto:editor@populareconomics.com)

**VOICE**  
MAGAZINE  
924 Anacapa St #B1F  
Santa Barbara, CA 93101  
(805) 965-6448  
FAX (805) 966-9827  
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[www.VoiceSB.com](http://www.VoiceSB.com)

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**Publishers & Editors**

Mark Whitehurst, PhD: [Publisher@VoiceSB.com](mailto:Publisher@VoiceSB.com)  
Kerry Methner, PhD: [Editor@VoiceSB.com](mailto:Editor@VoiceSB.com)

**Translator**

Jeanette Casillas c/o [Editor@VoiceSB.com](mailto:Editor@VoiceSB.com)

**Writers**

Cynthia Anderson: [Calendar@VoiceSB.com](mailto:Calendar@VoiceSB.com)  
Ariana Meyers: [Art@VoiceSB.com](mailto:Art@VoiceSB.com)

**Columnists:**

Robert Adams: [Robert@EarthKnower.com](mailto:Robert@EarthKnower.com);  
Harlan Green: [bankerspacific@verizon.net](mailto:bankerspacific@verizon.net);  
Alex Henteloff: [papaalex@verizon.net](mailto:papaalex@verizon.net);  
Beverley Jackson c/o [editor@voicesb.com](mailto:editor@voicesb.com);  
Richard Jarrette: c/o [editor@voicesb.com](mailto:editor@voicesb.com);  
Sigrid Toye: [Itssigrid@gmail.com](mailto:Itssigrid@gmail.com)

**Bookkeeping:** Maureen Flanigan

**Circulation:** Central Coast Circulation  
(805) 636-6845

**Advertising Questions:**

[Advertising@VoiceSB.com](mailto:Advertising@VoiceSB.com)

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