High Gas Prices Set to Cause Double Dip in Economy

"I'm sure the rising cost of energy is bothering the market," said Fred Dickson, chief investment strategist at D. A. Davidson & Company last week. "I do think the uptick in gasoline prices will have an impact on consumer spending in the next few quarters."

One could scarcely call it an "uptick," with gasoline prices up by $.70 a gallon since the first of the year, and approaching $4 a gallon. The American Automobile Association said at that level consumers "will have to start cutting back to pay their fuel expenses. This could adversely affect restaurants, malls, and entertainment venues that count on people driving to get there."

The Gallup organization's chief economist, Dennis Jacobe, agrees:

> At $4 a gallon you get people who might have money to spend otherwise, but with the amount gasoline costs, they start to cut back in response to the price. At $4 a gallon, they park the extra vehicle if they have two cars and use the most efficient one, and they make fewer trips.

Just how high could gasoline go? According to Gallup, the average American expects gasoline to hit $4.36 a gallon this summer, and one out of five expects gas to reach $5. Richard Hastings, strategist at Global Hunter Securities, said that under special circumstances, gas could exceed $6 a gallon: "All we have to have is a couple of badly placed hurricanes in some key locations [and] prices could go up [exponentially]."

Craig Johnson, president of Customer Growth Partners, said: "Energy is not quite as essential as food and water, but … when gasoline costs more than bottled water… then it takes a huge bite out of consumer spending."

Johnson thinks the economy has already reached a tipping point, with energy costs now taking six percent out of the average American's budget. In five of the last six recessions since 1970, when energy costs reached that level, the economy went into recession over the next 18 months. And that's only energy. Food prices have risen 6.5 percent since the first of the year, pushing the average American's cost for energy and food to reach 15 percent of disposable income. The last time that happened, in 1973, the economy went into a severe recession.

Johnson is very clear about the cause of rising gas and food prices: clueless beltway blowhards who haven't pumped their own gas or bought their own groceries in years. And because the Consumer Price Index is usually quoted without counting food or energy because they are considered to be too volatile, these blowhards think it's not part of the core inflation, and so it doesn't matter. Well, it matters to Americans.

First, there's ethanol that's largely responsible for increasing food prices:

> Unfortunately, [food price inflation is] mostly made in Washington, because first of all, corn, which is the single biggest element of the food chain … is getting pushed up by these stupid ethanol subsidies where corn is being diverted to making ethanol totally uneconomically.

And then there's the Fed that is completely responsible for increasing the supply of money, creating continuing weakness in the American currency:

> And then secondly, because of the weak dollar, also made in Washington under Bernanke's Fed, is making commodities overall — this is worldwide — rise, and that is hurting not just American consumers, but even hurting people in the emerging … and poor countries.

The dollar's plunge can be viewed here (which is continually updated), with its value dropping from a high of 81 in early January to just above 73 at present — a 10 percent decline — and that's against a basket of other currencies which are also being inflated (and consequently devalued) by their respective central banks across the world. The impact of the weak dollar is nearly exactly correlated to the rise in the price of oil, according to Michael Pento, senior economist at Euro Pacific Capital:

> When you have negative correlation that strong, it's not hard to understand that the reason why we're having this price spike in commodities is primarily because of the weaker [American] currency and *not because of shortages of oil or international tensions or global growth*." [Emphasis added.]

This, according to Anthony Wile at The Daily Bell, is being done on purpose:

> The world did not simply arrive at this place by accident. The central banking economies of the West — themselves deliberately put into place — caused the great economic meltdown of 2008, with which the world still struggles. But additional policies having to do with unnecessary warfare and irresponsible spending have aggravated the crisis and made it so much worse that whatever "recovery" was to be had has likely gone a glimmering.

To confirm, if such confirmation that rising prices are no accident is necessary, listen to President Obama. In a letter he sent to House and Senate leaders on Tuesday, he wrote:

> Our outdated tax laws currently provide the oil and gas industry more than $4 billion per year in these subsidies, even though oil prices are high and the industry is projected to report outsized profits this quarter.
>
> Here are steps we can take to ensure the American people don't fall victim to skyrocketing gas prices over the long term. One of these steps is to eliminate unwarranted tax breaks to the oil and gas industry and invest that revenue into clean energy to reduce our dependence on foreign oil.

That Obama is so wrong on so many counts is simply to state the obvious: he wants higher prices for oil and gas. Marlo Lewis, senior fellow at the Competitive Enterprise Institute, said that "[Subsidies do] lower the price of producing oil. If you raise the price of production, that increase would [have to] be passed on to somebody."

He's desperate to blame somebody else. He is unwilling to say that's how supply and demand operates, so he just shifts the blame to the oil companies because they are the easiest target for political demagoguery in the world.

And so, as President Obama prevaricates and pontificates and points to others in order to shift the blame from his own policies, the fragile economy is teetering on the edge of another decline.