

Popular Economics Weekly

Low Inflation Everywhere Is Shrinking Growth

By Harlan Green / Special to CASA

DEFLATION IS A RISING RISK FOR THE U.S. ECONOMY based on import and export price data where contraction is at its most severe since the 2008-2009 recession, as well as for the rest of the world. U.S. import prices fell 2.8 percent in January alone for year-on-year contraction of 8.0 percent. And it's much more than just the impact of the strong dollar as export prices are also in contraction, at minus 2.0 percent for the month and minus 5.4 percent on the year, Econoday reports.

Another sign of deflationary tendencies is that retail sales plunged in February for a third consecutive month as consumers remained hesitant to spend the money they've saved from low gasoline prices. Bad weather added another obstacle for shoppers. Sales decreased 0.6 percent, fueled by a major decline in auto purchases, the Commerce Department said.

The decline was an improvement over drops of -0.8 percent in January and -0.9 percent in December that were caused by a sharp drop in gas station sales. The Commerce Department said retail sales excluding automobiles, gasoline, building materials, and food services edged up 0.1 percent last month. This is after consumer spending, which accounts for more than two-thirds of U.S. economic activity, expanded at its quickest pace since 2006 in the fourth

quarter.

Sales at auto dealers dropped 2.6 percent in February from January. It was the biggest decline since January 2014, when bad weather also was a factor. Excluding autos, retail sales were down just 0.1 percent last month. Building materials and garden equipment stores, which are particularly vulnerable to weather, saw sales fall 2.3 percent in February.

But even falling gas prices are a sign of deflation, as it means there is lower demand for energy products everywhere in the world. In fact, consumer prices are already falling in the Eurozone, -0.2 and -0.6 percent, respectively, in the past two quarters, signaling an outright recession. Paul Krugman has even said the Eurozone is now in their Second Great Depression.

So why are consumers paying down debt with their extra pocket money? The preliminary University of Michigan consumer sentiment index for February was at 93.6, down from 98.1 in January. Higher gasoline prices are probably the reason for the decline in February, and that's enough to make consumers more cautious with their spending.

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