Get Ready for Six Dollar Gas and Twenty Dollar Coffee

August 24, 2012 - If you havenâ€™t been paying close attention to the economic news this past week, you may want to take a second look. A report came out that week that said the United States could be headed back into a recession and that unemployment could be expected to go up to more than 9% early next year. Never mind the reasons for the prediction, the reaction from the FED is the thing that is most worrying. They made an announcement that it may be necessary to provide further stimulus to the economy very soon. What they are talking about doing is just printing more money, and that means prices for food and energy can be expected to jump.

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In a normal economy, when the FED wants to stimulate consumers to buy more they simply lower interest rates. Unfortunately, they have lowered rates so many times now that lowering rates further is simply impossible. So the past two times that the FED wanted to stimulate consumer spending they did something else. They purchased US Treasury notes. The effect of that is the same as turning on the printing presses to make more money. Actually, itâ€™s worse that turning on the printing presses because once they buy Treasury notes, American tax payers are force to pay interest on those notes. Thatâ€™s in addition to the inflation that this type of action causes.

The term that the FED has used for this is â€œquantitative easingâ€•. And because according to the FED, energy and food prices donâ€™t count towards inflation, all of the effects of their actions are positive. At least, thatâ€™s their position.

But since quantitative easing was first introduced, gas prices have more than doubled. Home heating oil has gone through the roof. And the price of food has skyrocketed.

From the sounds of the FEDâ€™s announcement, the third round of quantitative easing (also being referred to as QE3) could come as early as their next open market meeting which is scheduled to begin September 12th.

Market watchers are divided as to when the FED will act. Some believe it will be at the next meeting but others think it could be in December. With that said, most analysts appear to agree that the FED will eventually implement QE3. And while that may save some jobs temporarily, the more immediate effect of such action is likely to be felt by families just trying to make ends meet.

byJim Malmberg

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