

GLEANINGS II - 694
Thursday January 19th, 2017

IMF BOOSTS US GROWTH FORECAST, KEEPS GLOBAL GROWTH PREDICTION UNCHANGED (Euronews)

•This month, in its *quarterly Economic Outlook* report, it kept its forecast of 2017 & 2018 global growth unchanged from October at 3.4% & 3.6% (vs. 3.1% in 2016). While it expects faster US GDP growth (2.3% in 2017, up 0.1% from October, & 2.5% in 2018, up 0.4%) based on Trump's *purported* tax cut-, & infrastructure spending-, plans, it warns his policies may create major uncertainties for the global economy, especially if protectionist moves were to prompt retaliatory responses by other countries (in which case, warns IMF Chief Economist Maurice Obtfeld¹, "all countries will lose"). Its numbers include :

	2016	2017	2018
	%		
World ²	3.1	3.4	3.6
Advanced Economies	1.6	2.3	2.5
US	2.6	2.6	2.5
Euro area ³	1.7	1.6	1.6
Japan	0.9	0.8	0.5
UK	2.0	2.3	2.1
Canada	1.3	1.9	2.0
Emerging Markets	4.1	4.5	4.8
China	6.7	6.5	6.0
India	6.6 ⁴	7.2	7.7 ⁵
Latin America & Caribbean	-0.7	1.2	2.1
Brazil	-3.5	0.2	1.5
Mexico	2.2	1.7	2.0
Middle East, North Africa, Pakistan & Afghanistan	3.8	3.1	3.5
Sub Sahara Africa	1.6	2.8	3.7
Low income countries	3.7	4.7	5.4

Something that could affect all these forecasts, & especially those for the developing countries, is the as yet unknown impact on international capital flows from higher US interest rates.

¹ Formerly an economics professor at the University of California at Berkeley.

² Last November the OECD came up in its semi-annual economic update with a similar forecast for global economic growth : 3.3% for 2017 (up from 2.9% in May) & 3.6% for 2018, but with different numbers for the US for 2017 - 2.3% (up from 2.1%) & 2018 - 3.0%.

³ With Germany's right at-, France's below-, Italy's far below-, & Spain's well above-, the average.

⁴ Prime Minister Modi's sudden move to take all large denomination bank notes out of circulation created such economic chaos that GDP growth has fallen short of forecast levels by 1%.

⁵ Bolded to emphasize that India has replaced China as the world's fastest-growing major economy.

BoJ EXPECTS GLOBAL ECONOMY TO CLIMB OUT OF TRIPLE LOWS **(Nikkei Asian Review, Moyuru Baba)**

- In a speech last month, BoJ Governor Haruhiko Kuroda declared “the global economy is entering a new phase, and the view is gaining momentum in the Bank that the global economy hit bottom last year and is about to say farewell to slow growth, low inflation and rock bottom interest rates.” The IMF now expects 3.4% global growth for 2017, consumer prices across the world are heading up, as are long-term interest rates, especially in the US. Much of this is based on an expectation of stronger US growth, driven by Trump hiking infrastructure spending, cutting corporate taxes & relaxing the regulatory environment, with one BoJ official saying Trump’s “military and diplomatic stances are uncertain, but it appears that we can expect a sound approach to economic policies”⁶. But the question remains if Japan will escape the ‘three lows’

The above table suggests the IMF doesn’t think it will escape, possible because its population continues to age rapidly (its age-dependency ratio was already at a trend growth rate-unfriendly 43% in 1992 & now is 65%), its 230% national debt-to-GDP ratio makes Greece’s 177% look good⁷, 40% of government expenditures are funded by borrowing, not taxes & Prime Minister Abe has failed to make much progress with long overdue economic & social reforms.

McCAIN FIRES OPENING SHOT IN PENTAGON BUDGET WARS WITH BUILDUP PLAN **(Politico, Connor O’Brien)**

- A 21 page blue print drafted by Sen. John McCain, Chairman of the Senate Armed Services Committee proposes to add nearly half a billion over five years to military spending to increase the size of the Army and build more ships for the Navy & more fighters for the Air Force, warning “failure to act now “will irreparably damage our military’s ability to deter aggression and conflict.” This would blow away the military spending limits mandated by the 2011 Budget Control Act that were to hold until 2021. According to McCain “For too long have we allowed budget constraints to drive strategy ... It is time to ... return to the first order question : What do we need our military to do for the nation ... This is not cheap ... (*but*) The cost of inaction, however, is worse.”
- The current 2017 Pentagon budget is US\$611BN. McCain proposes raising that to US\$640BN for FY 2018 (plus an additional US\$60BN for ‘overseas operations’ in Iraq, Afghanistan & elsewhere) & to US\$800+BN, incl. cost of ‘overseas operations’, by 2020.

One very basic problem is that the Pentagon/military complex does not spend money well. Two interesting aspects of this are that it proposes to buy fewer of the controversial & increasingly costly, F-35’s and more F/A-18 Super Hornets & E/A-18 Growlers (for Navy use off carriers) and confirms the idea that has been floating around that that the Navy’ ten nuclear-powered super carriers ought to be augmented by a number of smaller, conventionally-powered ones..

NOTE - One of you was kind enough to send me a link to a January 18th article in [Politico](#) by Michael Kruse entitled [He Has This Deep Fear That He Is Not A Legitimate President](#) (because

⁶ He may well live to rue this prognostication; for if, as it looks it might be the case, he will seek to boost economic growth with deficit financing at a time it, according to the Fed, is ‘starting ‘to strain at the leash, that ain’t “sound economic policy”.at the leash’, as the Fed appears to increasingly

⁷ Moreover, while Greece’s seems to be stabilizing, Japan’s is continuing to ratchet up inexorably.

he got about 3MM fewer votes), featuring a lengthy discussion with Gwenda Bair, Michael D'Antonio & Tim O'Brien (all three "biographers who have authored a book about Trump). It ought to be required reading for anyone seriously interested in how the Trump Presidency will play out (& *is pretty scary reading, and in my case confirmed my expectation he will be impeached before the year 2018 is out*).

US PRICES SEE LARGEST INCREASES IN 2½ YEARS (Reuters, Lucia Mutikani)

- The Labor Department reported on January 16th that the CPI, after gaining 0.2% in November, had, in line with economists' forecasts, risen 0.3% in December⁸ & that the YoY rate had gone from 1.7% in November to 2.1% in December (vs. 0.7% YoY in December 2015)⁹. This was corroborated by a Fed report the same day that noted that price pressures had "intensified somewhat" from late November to the end of the year.

This is a harbinger of possibly faster-than-expected interest rate hikes by the Fed.

BRAINARD JOINS FED CHORUS WARNING ABOUT FISCAL STIMULUS RISKS (Reuters, Jason Lange)

- Fed. Gov. Lael Brainard, for much of her 30 months on the Board one of its stronger 'doves', told an event organized by the Brookings Institution (*where she had held the Bernard L. Schwartz Chair in 2001-2008*) on January 17th that the Fed may have to hike interest rates more aggressively if deficit spending under the Trump Administration produced a quick economic boost : "If fiscal policy changes lead to a more rapid elimination of slack, *monetary* policy adjustment would, all other things being equal, likely be more rapid."

Prior to her appointment to the Board effective June 16th, 2014 (for a term ending January 31st, 2026) she was the Treasury's Under-Secretary for International affairs & for much of her 30 months since at the Fed has been one of its Board's most dovish members. But in her January 19th speech at the Stanford Institute for Economic Research Janet Yellen disagreed : she doesn't expect the US economy to overheat on the grounds that any fiscal stimulus won't be enough to overcome the US economy's "structural headwinds" (in which case the US may get the worst of both worlds : stagflation, i.e. high inflation & low growth.

CHINA'S REVIVING THE AMERICAN HEARTLAND, ONE LOW WAGE JOB AT A TIME (Bloomberg, Andrea Mayeda)

- For six years *after it was closed on short notice in December 2008* the GM plant in Moraine, OH that used to make Chevy Trailblazers & employed 2,400, sat abandoned as a rusty monument to the decline of the US auto industry. But in 2014 a Chinese company, Fuyao Glass, invested US\$450MM in buying & refurbishing about half of it. And today it is humming again as the new owners have been so successful in having 200 Chinese nationals teach 1,500 Americans how to assemble automobile windshields that the plant is now the world's second largest manufacturer thereof (with plans to

⁸ While most of the blame was laid at the feet of higher rents & gasoline prices, rising wages are also a factor; in December average hourly earnings increased at their fastest pace in 7½ years.

⁹ And 12 months' 'core CPI' (ex food & energy) was up 2.2% in December, vs. 2.1% in November.

increase, within the foreseeable future, employment to 2,500 & production to 4MM units thereby making it the largest windshield manufacturer in the world). And this is only one of many Chinese firms that have set up shop along Interstate 75 in Michigan & Ohio where in the recent past traditional US manufacturing had been 'hollowed out' by competition from abroad (often from China).

This is not all peaches & cream; for its going wage is in the US\$12+ range, less than half that of the overinflated wage & benefit cost of unionized workers in the plant when it was owned & operated by GM. Few Americans (incl. President-elect Trump) seem to be aware of the extent of Chinese investment in the US since the turn of the century; according to the New York-based Rhodium (research) Group as of the Fourth Quarter of 2016 it had involved 1,360 deals with a total value of US\$109.5BN (US\$40BN in 2015 alone, up from US 20BN in 2009-2102) in 47 states (all but the Dakotas & New Hampshire), incl. 415 in California, 120 in New York, 111 in Texas, 66 in Illinois & 58 in Michigan. The only fly in this ointment is that it mostly involved the acquisition of existing assets (582 with an aggregate value of US\$100BN) rather than 'greenfield' situations (778 with an aggregate cost of US\$8.6BN).

US RESTAURANTS CAUGHT IN FOOD FIGHT AMID DEMAND FOR LOWER-SKILLED STAFF (Bloomberg, Leslie Patton)

- 41 year-old Lisa Aragon is a manager at a Wendy's outlet in Albuquerque, NM, has worked there for two decades & says "I'm happy where I am at" (& Eddie Rodrigues, who runs 177 Wendy's in Florida, New Mexico and Texas, has done all he can to keep employees, incl. raising pay by nearly one dollar to US\$9.05/hour). But that didn't stop a headhunter for the *Knoxville, KY-based Pilot Flying J* chain of 550 truck stops from trying, 5x in a single month, to hire her away with *ever-greater* enticements in pay & paid vacation time. In today's tight labour market the fast food industry is embroiled in a massive fight over workers featuring referral bonuses¹⁰, free meals, more days off, & higher wages (without lawmakers having to raise minimum wages). *While* good news for low-skilled workers, it's less so for companies whose only options are to raise prices or accept lower margins.
- In December the unemployment rate was 4.7%, a near nine year low (*i.e. since the onset of the Great Recession*) & with its insatiable thirst for new workers the industry serves as a leading indicator of labour shortages &, according to the Dallas, TX-based industry tracker *People Report*, last September the annual turnover for restaurant workers was 113%, the highest since it started collecting these data in 1995¹¹. This has resulted in less service; thus diners at the Chipotle Mexican Grill, that is trying to find 600 new "crew members", must wait longer and, while the industry is already paying an average US\$10/hour, it is considering raising its prices so as to be able to increase wages further, with CEO Steve Eells complaining that a lack of well-trained workers has resulted in napkins being left on tables, untidy drink stations & slower meal service.

It's questionable whether an industry with wage rate in the US\$9-10 range can really serve as a meaningful "leading indicator of labour shortages". And the companies in it aren't just competing

¹⁰ Paid to employees who find new employee prospects.

¹¹ According to Michael Harms, Executive Director of Operations at TDn2K., its parent company, "It's a hot job market ... Every employee, whether they're 17 years old or 40 years old, has options."

for workers with each other :Wal-Mart too last year raised the wages of more than a million employees to either to \$10 an hour or by 2% for those already making more than that.

WOMAN DIES FROM BACTERIA RESISTANT TO ALL ANTIBIOTICS

(Forbes, Bruce Y. Lee)

- In September a woman in her 70's died from an infection caused by bacteria that are resistant to all 26 available antibiotics. She had broken her right leg while on a visit to India & had a series of infections while there, and after returning to the US was admitted to a hospital in Reno, Nevada after the infection had spread to her entire body.

*As far back as August 2010 an article published online by the British medical journal The Lancet had drawn attention to the emergence of a new gene called NDM-1 that alters bacterial DNA in a way that made them resistant to nearly all known antibiotics. It had been identified in 37 people who had returned to the UK after having undergone surgery in India or Pakistan (where it appears to be endemic). According to its authors "The potential for NDM - 1 to become a world public health problem is great ... the resistant bacteria have already been detected in Australia, Canada, the Netherlands, the US and Sweden". The truly scary part of this is that there are few new antibiotics in the drug industry's pipeline (& none in that of 'Big Pharma' that is too busy putting its R&D effort into developing more profitable drugs that people **want**, rather than those the medical community **needs**). And its worth noting India has the second largest market share in the booming 'medical tourism' industry that last year generated US\$46-72BN in revenue for the countries involved & was accessed by 1.8MM Americans.*

OFFICER STILL LEADS POLICE UNION DESPITE ASSAULT AND PERJURY CHARGES

(CP)

- On January 17th Alberta's police watchdog ASIRT (the Alberta Serious Incident Response Team) laid charges against the head of Calgary's police union, a sergeant, & a constable for assault causing bodily harm in connection with a traffic stop & an arrest for uttering threats - a charge later thrown out in court with the judge saying in his written decision that the officers 'were not credible witnesses'. The sergeant continues to act as his union's president & a union spokesman says both officers have its support (although its board is 'considering all its options & is consulting members').

This is symptomatic of the malaise in the North American police community writ large, the tendency to put the wagons in a circle & protect 'brothers' as a matter of principle, no matter what. Respect has to be earned and as long as this continues the erosion of innate public respect for those 'in blue' will continue to erode (as did the prolonged protest by the Montreal police against pension reforms that would have them pay more for their pensions that took the form of them refusing to wear uniform pants on the job & instead going about the performance of their duties in attire like camouflage- and/or cargo-, pants .

CHINA SENDS FIRST FREIGHT TRAIN ON A 8,000 MILE JOURNEY TO LONDON

(CNN, Doug Criss)

- According to Xinhua, China's state-run news agency, its first freight train to London left the Yiwu West Railway Station in Zhejiang Province (a coastal province just South of Shanghai) on January 1st & was expected to reach London two and a half weeks later.

This made for a catchy headline but is old news. For the first such trans-continental, 'Silk Road' freight train reached Madrid on November 28th, 2014 and there are now 16 cities in China, most of them coastal ones that are points of departure for freight trains from China to Madrid, Spain, Duisburg, Germany & a baker's dozen other European cities). This may be a bit of grandstanding with a limited future; for while it takes less than half the time to move something from China to Europe by rail than it would have taken to do so by sea, the cost of hauling freight by rail is a significant multiple of doing so by sea & the Chinese economy is far less export-driven today than two decades ago (exports now account for a shrinking 22% of China's GDP, vs. 37% then). So it may make little economic sense to move anything but a limited range of high value-added goods by train from China to Europe (especially so from coastal provinces)¹² although, if the post-WW II experience is anything to go by, as developing countries' economies develop, their exports tend to go upscale value-added wise. On the other hand, such a service may make more economic sense for cities like Chongquin & Chengdu, the capital of Sechuan Province, that are a 1,000 or more miles inland & be 'in sync' with Beijing's ambition to promote more industrial development in China's interior.

WHY RUSSIA RUNS THE WORLD (NP, Tristin Hopper)

- Russia's GDP is one quarter Canada's on a per capita basis & smaller in absolute terms than Australia's (that has a one-sixth its population & less than half its land mass) & it has a smaller population than Nigeria, Bangladesh & Brazil, one-tenth the US' military budget, fewer military personnel than India & a navy whose flagship is always escorted by a tug in case it breaks down. And yet between hacking the US election & intervening in Syria it is 'utterly dominating foreign affairs'. Asking historians, political scientists & diplomats "Why is a Eurasian basket case running the world now?" elicited many observations, incl. the following :
 - **It's very good at gaining global influence 'on the cheap'** - It seized Crimea without firing a single shot, and its intervention in Syria took only 50 aircraft & cost US\$500MM (about the same amount as the US training the rebels);
 - **Like Israel, it has an aggressive foreign policy** - For it too perceives itself to be living in a neighbourhood replete with real-, & imagined-, enemies;
 - **It has, and is willing to use, its UNSC veto power** - Since 2000 it has used it 13 times, more often than not on Middle Eastern issues;
 - **It's good at diplomacy** – Other countries' diplomats have long respected their Soviet/Russian counterparts for being well-trained, relentless & professional. And recently they have scored some major achievements : a Syrian chemical weapons disarmament deal, rapprochement with China & creating an EU-style Eurasian economic union with Armenia, Belarus, Kazakhstan & Kyrgyzstan (*which is not as big a deal as it may sound; for while their aggregate population & GDP is about 25% that of Russia, their total GDP is smaller than Columbia's*)
 - **It has clear political priorities** - In the past two years its economy has been in the crapper with real incomes declining 9% in 2016 alone. While this typically would have led to a dialing back on foreign dealings & a focus on domestic programs, Putin has doubled his efforts to achieve greater geopolitical status for

¹²

Thus the China-Duisberg service originates in Chongquin, well over 1,000 kms inland.

- two possible reasons : to *deliberately* trading wealth for prestige or as a *strategic* diversion of Russians' attention from their poor economy to their foreign "wins"¹³;
- **It's ruthlessness** - In 1985 Hezbollah kidnapped four Russian diplomats in Beirut. So the KGB (*Putin's career alma mater*) killed a family member of a Hezbollah leader & mailed a piece of his corpse to the kidnappers, prompting the kidnap victims to be freed promptly; everyone contacted in this process said that Russia's long tradition of 'brute endurance' makes it take for granted, *without any second thought*, behavior by its leaders that would not 'pass the public's smell test' in other countries; and
 - **Its nuclear arsenal** - While a number of countries, incl. the UK & France, India & Pakistan, China, Israel and North Korea, have nuclear weapons, only Russia (& the US) have enough of them to make the entire world glow in the dark¹⁴.

*Contrary to the writer's perception, Putin is **not** "utterly dominating foreign affairs"; although head-lines often make it look that he does. But in reality he has only a weak hand to play & is 'punching beyond his weight', operating on the basis of "l'audace, l'audace, toujours l'audace"¹⁵.*

¹³ After meeting with Putin in Sochi in 2007, also attended by his black Labrador retriever that discombobulated the dog-phobic Angela Merkel, she commented "He's afraid of his own weakness ... Russia has nothing, no successful politics or economy"

¹⁴ According to the San Francisco-based Plowshares Fund Russia & the US have 7,300 & 6,970 respectively, and France 300, China 260, Pakistan 130, India 120, Israel 80 & North Korea 15.

¹⁵ The English language equivalent. 'audacity', is defined as "a willingness to take bold risks". The person who coined this phrase was Georges Jacques Danon, a leading light in the early days of the 1789 French Revolution. But as revolutions are wont to do, they "eat their young" (or rather their parents?) & Danon was guillotined five years into it at age 34. And other well-known historical figures, incl. Napoleon, and George Patton of WW II fame didn't fare much better.