

Quote of the week : “The combined policies of the Federal Reserve and the government helped reduce the effects of the Great Recession, but it was also their policies that helped to create the conditions for the 2008-2009 collapse (*of the economy in the first place*). So applauding the Federal Reserve is a little ... like cheering the arsonist who helps put out the fire he started.- John Mauldin in a column entitled *Need at the Fed ; an Inverse Volcker; while the section on the inflation/ deflation issue may not be everyone’s cup of tea, that sub-titled Fast and Easy Healthcare Delivery describes a way for the system to cope with the healthcare demands of an aging population.*

By the time this reaches you, all know whether the FOMC had the balls to bite the bullet on interest rate ‘lift-off’ by increasing its *notional* base interest rate by 0.25%. There are three reasons it should do so. The US labour market is tightening; the unemployment rate in August was down to 5.1%, down from 6.1% YoY, 7.2% two years earlier & its October 2009 peak of 10.0%, & well below the 6.5% once touted by former Fed Chair Ben Bernanke as the trigger level for starting to think of lift-off. Furthermore, the latest BLS’ ratio of unemployed persons per job opening in July stood a 1.4, vs a peak of 6.8 in July 2009, five months before the end-, & the December 2007 1.8x low during the early stages-, of the Great Recession. The uncertainty about if & when lift-off will be initiated has begun to impact on the ability of decision makers everywhere to do so &, in the words of Julio Velarde, the Governor of Peru’s central bank, during a recent visit to Seoul “is causing more damage than the Fed hike will itself’ (this coming from someone whose job, like that of many of his fellow emerging market central bankers will be complicated by a hike). And finally, the growth of new family formation that was long depressed has started accelerating; this will increase the demand for new housing units with a significant multiplier effect’ (even though the product mix has shifted from freestanding homes to *less costly* rental apartments & condo units). On the other hand, there are those who argue that the official unemployment rate lowballs reality since, for the past fifteen months, the participation rate has been stuck below 63.0, a level not seen in 37 years, & that the latest Consumer Confidence-, & producer price-, index numbers were ‘soft’ - *it would not be surprising if bureaucrats’ abhorrence of acting proactively will once again win the day. In the event, this is the way it turned out : no lift-off, with the justification given being “The Committee judged it appropriate to wait for more evidence, including some improvement in the labor market to bolster its confidence that inflation will rise to 2 percent in the medium term”.* This continued the process of the ongoing erosion of the Fed’s credibility erosion.

Goldman this week opined there is a chance of a *continuing* global oil surplus driving its price to as low as US20/bbl while the Paris-based EIA argued the opposite, i.e. that the oil price may snap back faster further than the CW holds - *while Goldman forecasts are always dubious since they have been known to be driven by its own long-short position & EIA’s forecasts are most useful as counter indicators, the lowest common denominator of all oil price forecasts is an expectation that the price of oil will not return to anywhere near the three digit level of fourteen months ago at any time in the foreseeable future. For growth in demand has been muted by a slowing of global economic growth, by refiners having taken advantage of the lower crude prices to widen their margins (thereby limiting the amount of incremental disposable income the lower oil prices have put in consumers’ pockets) & by countries like India using the lower oil prices opportunistically to cut their fuel subsidies.*

The growth in Canada’s household debt-to-disposable income ratio continues unabated. It now stands at close to 170%, up 20 points since the end of the Great Recession in December 2009. And while the Governor of the Bank of Canada warned earlier this year that an economic slowdown could result in a decline in jobs & incomes that would test Canadians’ ability to meet their payment obligations, thereby risking a housing correction, the housing market nation-wide

still appears 'on wheels' although the national numbers are distorted by bubbles in the Toronto & Vancouver markets & the luxury home market holding up (*due to the ongoing influx of Chinese money?*)

The May 5th Alberta election reinforced the message of the 2011 federal election in Québec that if voters get peed off enough, no amount of money will help a ruling party candidate get elected. Thus in the Edmonton-Mill Creek provincial constituency the Speaker of the Legislature, a five term Conservative MLA, spent \$36,000 & got 24% voter support only to be beaten by an unknown, unprepossessing NDP candidate who spent \$3,000 to get 56%. And in one Calgary constituency a star freshmen Conservative candidate spent \$87,000 only to be beaten by a union recruiter "Dipper" candidate who spent \$6,000 (*a union recruiter - in Calgary?*) while in another the Conservative incumbent spent \$79,000 & was beaten by a Dipper who spent one-third that amount¹ - *Canada is not the only developed country where voters are in a sour, 'I've had enough & I'm not going to take it any more' mood, as evidenced by the Trump/Carson/Saunders phenomenon in the US & the upsurge of parties of the extreme Right-, & Left-, in Europe (that are likely to benefit from the refugee crisis) .*

In August 2010 at a conference in Rome the late Libyan dictator Col. Moammar Gadaffi, while standing beside his host, the controversial Prime Minister Sylvio Berlusconi, declared that unless the EU paid his country an annual 5BN Euros to block the flow of illegal immigrants to Europe it would become "another Africa ...(*as a result of the*) advance of millions of immigrants ... Tomorrow Europe might no longer be European and even black as there are millions who want to come in" - *with the benefit of hindsight, prophetic words : the current refugee problem was wholly foreseeable/ predictable & long in the making, and should have been prepared for.*

Few people are aware how much Germany has already done to help cope with the refugee issue. YTD it has taken in 450,000 of them, including 63,000 in the first two weeks of this month, & over 12,000 on September 12th alone². And there has been as yet little, if any, evidence of a popular backlash in Germany, in contrast to the situation in many of the other 27 EU countries that at best have only begrudgingly agreed to accept a measly few thousand each . But the whole affair could over time end up badly. There have been *unconfirmed* reports of male refugees rejecting donations of bottled water because it had been handled by "infidels" (& *they want to go to a country that is full of them?*), & of food because it was not halal³ (which bodes ill for their integration potential), & of refugees arriving in Denmark not wanting to stay there since they had been told welfare benefits are more generous in Sweden (where a backlash among the hitherto refugee-friendly locals has begun to build as witnessed by a headline in a Canadian newspaper For decades, the country has offered a generous welcome to refugees; if it isn't working there, then where will it work?)

One issue which in the present chaotic situation has been overlooked is that this "refugee crisis" may to some extent be a misnomer since at least some of those clamouring to get into Europe

¹ These numbers are courtesy of Insight, a weekly, by-subscription review of Alberta politics that may have become more useful to interested parties outside the province with the May 5th election

² But even in Germany inflows of this magnitude created such logistical problems that on September 13th the authorities found it necessary to impose 'temporary' border controls in what was a clear message that it expected its EU partners to start pulling their weight in dealing with the refugees

³ Although women & children are said to have no such qualms.

are “migrants”, not “refugees“. For the 1951 UN Convention Relating to the Status of Refugees is very clear; it defines refugees as those “forced to flee because of a threat of persecution and ... the lack of the protection of their country”, while “migrants may leave his or her country for many *other* reasons ... not related to persecution...”. By this standard an Afghani who is threatened with death because he once worked for the “foreign invader”, or a Christian or other minority religionist from almost any Arab country meets the refugee definition better than those who left their home country because life there left something to be desired (& who may become quickly disillusioned when they find that living in Germany is not a bowl of cherries either & poses its own challenges).

GLEANINGS II - 633 **Thursday September 17th, 2015**

U.S. SENATE LEADER SAYS FEDERAL GOVERNMENT WILL NOT CLOSE (Reuters)

- Senate Majority Leader Mitch McConnell (R.-Ky) said on September 16th he will get the legislation passed needed to avoid a government shutdown on October 1st (*the start of the new fiscal year*), saying “We’re going to fund the government ... until a longer term spending bill can be negotiated ... We’re not going to shut the government down.” And he outright opposed the efforts of conservative Republicans (*incl. several at the Republican presidential hopefuls’ debate that evening*) to make any temporary funding bill contingent on ending the US\$500MM annual federal funding of Planned Parenthood.

*Given the plethora of major issues facing the nation, more time than warranted was devoted to the Planned Parenthood issue at the debate as some candidates pandered to the religious right. But the Congressional leadership is playing a longer game & knows that shutting down government for the sake of forcing the defunding of Planned Parenthood is not a vote-getter & that, while in November 2016 they will have the religious right’s vote ‘in the bag’, a majority of Americans (whose support they need) support what they see as Planned Parenthood’s primary purpose, the promotion of women’s health. In August a bill to ‘defund’ Planned Parenthood failed to make it through the Senate and in like fashion a combo of common sense Republicans & Democrats will ensure the government is **not** shut down on October 1st.*

WHY TED CRUZ WAS BOOED OFF STAGE AT A CHRISTIAN EVENT (Time, E. Dias)

- As the President on September 9th was addressing on TV the threat posed by ISIS, elsewhere in Washington, Texas Sen. Ted Cruz was being booed off the stage during his keynote address at an IDC⁴ gala, the highlight of a three-day conference of Middle Eastern Christians ranging from Roman-, & Orthodox-, Catholics to Assyrians. Initially applauded for opening remarks that alluded to the group’s unity in its defense of Christians, Jews & “people of good faith who are standing together against those who would prosecute and murder those who dare to disagree with their religious teachings”, the mood changed, & some booing ensued, when he compared the “vicious genocidal campaign” of various Muslim extremist groups & their state sponsors to Israel & said “today Christians have no better ally than the Jewish state”. The booing got stronger when he went on to say “Let me say this : those who hate Israel hate America. And those who hate Jews hate Christians”. After that the booing got louder & more

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In Defense of Christians, a Washington-based advocacy group that seeks to raise awareness in the US of the plight of ancient Christian-, & other ancient religious-, minorities in the Middle East.

widespread as he kept digging himself in deeper in his support for Israel to the point where, after saying “If you will not stand with Israel & Jews, I will not stand with you ... Thank you and God bless you”, he walked off the stage.

Cruz’s thinking projects a zealous simplicity : ‘if you are not with us, you must be against us’, & there is no such thing as ‘constructive criticism’. Like many North Americans, incl. Bush 43, he hasn’t traveled abroad enough to be aware that his thought processes & value systems aren’t necessarily shared by non-North Americans & that in the Middle East family-, clan-, tribe- & religious subset considerations trump national identity considerations based on borders drawn up long ago on maps in faraway board rooms. While it isn’t specified who did the booing, many in his audience, being persecuted themselves, sympathize with the plight of the Palestinians. And the audience likely also contained a leavening of secular North American Jews, many of whom, unlike their community’s ‘official’ spokesmen, are critical of Netanyahu’s policies & the way they seem to have strayed from Israel’s founding democratic principles, and who don’t agree with his-, & official North American Jewry’s-, out-of-hand rejection of the Iran deal.

HOW CONSERVATIVES AVOID DESPAIR (Washington Post, Jennifer Rubin)

- There are four reasons. One, the GOP has gone through much worse times (incl. but not limited to the Nixon era Watergate debacle). Two, the situation is nowhere near as bad as the media make it out to be, if only because Trump’s once double-digit lead has shrunk to the single digit range (*she conveniently overlooks that the runner-up, who like Trump is ahead of the ‘pack’ by a country mile, is the other non-establishment candidate*). Three, several of the establishment candidates have good ideas. Finally, “strong voices in the GOP are waking up and demanding serious candidates”; thus the Club for Growth has launched a US\$1MM ad campaign in Iowa, emphasizing Trump’s incoherent & inconsistent economic ideas, pointing out that in the past he identified as a Democrat, and saying that he would protect Social Security & Medicare and tax the wealthy, & supports the use of ‘eminent domain’ (*aka ‘expropriation’*) to seize private property for public use.

The Club for Growth is conservative and adamantly anti-government & anti-tax. It was founded in 1999 to push the GOP further to the right on economic & fiscal issues and, while still below the radar of the general public, has since on several occasions successfully orchestrated the defeat in Republican primaries of candidates it deemed insufficiently conservative (& in so doing has caused other candidates to adopt more right wing positions lest they incur its wrath & suffer the same fate). But it is funded by, & the mouthpiece of, a small billionaire donor cabal⁵ that doesn’t seem to appreciate that it is the very increase in their control over the nation’s political agenda that is prompting the support for non-establishment candidate phenomenon among hoi polloi⁶ who feel powerless & believe the ‘political class’ has become dissociated from their interests, ignoring polls that show 70+% of Americans have long believed the government has taken, & continues to take, the country down the wrong path, and that the more than one quarter of Republican voters who support Trump seem to like his promise to protect Social Security & Medicare, and to take the cost of doing so out of the hide of the wealthy.

⁵ Shortly before Trump ‘declared last June 16th, it approached him for a US\$1MM donation.

⁶ Thus other polls show that as many as 70+% of Americans feel their government has taken, & is taking the country, on the wrong path; and to get at such a huge majority would require at least a significant proportion of registered GOP voters to share that view.

STUDY FINDS SNOWPACK IN CALIFORNIA'S SIERRA NEVADA TO BE THE LOWEST IN 500 YEARS (NYT, Nicholas St. Fleur)

- A paper published September 14th in the journal Nature Climate Change⁷ reported that, as of April 1st its snow pack level was 5% of its 50-year historical average. Using tree-ring data from centuries-old blue oaks, it is the first to have described precipitation levels in the Sierra Nevada for centuries before researchers started measuring them each year. To do so, researchers first compared blue oak ring information from 1,500+ such trees for the years 1930-1980 in California's Central Valley & then, after they had found a high degree of correlation between the information this provided & the actual snowpack measurements, used a second set of rings to estimate snow pack levels as far back as 1500 (which led them to conclude that this year's snow pack level is a-once-in-a-1,000-year event).
- According to Valerie Trouet, a paleoclimatologist at the University of Arizona & a co-author of the study, "the 2015 snowpack in the Sierra Nevada is unprecedented ... We expected it to be bad, but *not* to be the worst in the past 500 years." And snowmelt from the Sierra Nevada fills reservoirs that provide one-third of all drinking water for the state of California, and, as a fringe benefit generate electricity (*while in a 'normal' year hydro accounts for 15% of all power generated in the state, since 2011 that has declined by two-thirds*).

Aquifers are another major water source for the state. While even before the drought commenced in 2011 they were being drained by an unsustainable 40% over their natural replacement rate, that has since gone up to 60%, to the point where some of the water now pumped from the ever deeper aquifers was 'laid down' tens of thousands of years ago & may take that long, if not longer, to be replaced (thereby limiting the future water supply 'fallback potential' of the state's aquifers).

AS BOOM FADES, A GIANT RETRENCHES (G&M, Nathan Vanderklippe)

- In 2007, as golf became the rage in China & hundreds of courses⁸ opened up to a middle class with money to spend, the California River Town golf course near the village of Gonyi Zhuangcun⁹ expanded into fields that once grew beans & pears, saw its staff grow to over 500 as *it created jobs in the money economy for local subsistence farmers*, picked up awards & welcomed 300+ golfers a day. But since June 11th one-third of its staff has been let go with little notice & as little as a week's pay. This caused one 50 year-old, seven-year employee to ask "Golf used to be so popular. Why has it sudden gone so bad?". And this is not just evident in golf, but also in hotels, restaurants & delivery services, as well as factories & construction sites. And, with workers being let go with often little, if any, separation pay, or in some cases even back wages, there have been growing numbers of wage protests; thus the number construction worker protests

⁷ This journal, which is part of the MacMillan Publishers-owned, London-based Nature Publishing Group, was launched in 2011 prides itself on being "dedicated to publishing the most significant research across the physical and social sciences on the impact of climate change."

⁸ At last count 656 (of which 76 were closed down last year).

⁹ In Central China's Henan Province, East of Shanghai.

grew ten-fold in the six months' ended last February (*i.e. well before the stock market went into the crapper*).

This kind of anecdotal evidence is often far more telling far sooner than official GDP growth data that in China's case have become increasingly suspect.

MERKEL GOES FROM VILLAIN TO HEROINE (AP, Geir Moulson)

- In two months she has gone from being portrayed as a heartless bitch in Europe's debt-, to being a heroine in its refugee-, crisis. But it is just public perception that has changed; for her modus operandi hasn't, featuring pragmatism, an initial unhurried, & then decisive, approach, an insistence that Europe must abide by international rules, an eye on domestic public opinion & a hope her leadership can help bring about a European solution. But even so, she has been unable to please everyone all the time; thus the Baltic nations & Slovakia that backed her on the Greek issue now have parted ways with her on the refugee one, given her insistence that all 28 members have a duty to shelter people fleeing civil wars.

*Rather surprisingly, after ten years in office her popularity at home is as great as ever, in part because she conveys a sense of quiet confidence in her ability to handle complicated crises & of assurance that, in doing so, she will take the concerns of the hoi polloi into account. This has earned her the sobriquet "Mutti" (*i.e. Mom*).*

GERMANY SAYS 'SIGNIFICANT PROGRESS' MADE AT UKRAINE MEETING (Reuters)

- After meeting on September 12th in Berlin with his Russian-,Ukrainian & French counterparts Germany's Foreign Minister, Frank-Walter Steinmeier said that "significant progress" had been made towards a resolution of the conflict between Kiev & Moscow, and that Ukraine & Russia were close to striking a deal on the withdrawal of weapons from the demarcation line between the separatists & Ukrainian forces in Eastern Ukraine, and had agreed to lay no more mines & clear the ones already laid. And Putin's observation that he welcomed the cessation of fighting in Eastern Ukraine was a *welcome* change in rhetoric from his previous charges that Ukraine was violating the ceasefire.

For domestic reasons¹⁰ Putin seems intent on easing off the gas pedal in his conflict with the US & the EU over Ukraine; at least the separatists are complaining they have been left in limbo, with their hopes of either full integration with Russia or greater independence in abeyance. On the other hand, he is not willing to let Kiev regain control over the region; while this falls short of what the US & EU would like to see happen, both seem content that the less pro-active Russian backing for the separatists will cut their scope for continuing the armed conflict. And while the change in his stance on Eastern Ukraine is seen as an implicit admission that international pressure & Ukrainian resistance have forced this climb-down, the reality is that he has succeeded in loosening the Kiev government's defacto control of Eastern Ukraine & is 'trying to get the milk through the fence without having to buy the cow', by being able to exert pressure on it through a never-ending threat of a resumption of hostilities.

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Russia's economic situation continues to worsen more faster than expected; thus in August real wages were down 9.8% YoY (vs. 9.2% in July), retail sales were down 9.1% YoY (the same as in July), and capital investment was down 6.8% YoY (despite five interest rate cuts YTD, this was the 20th successive month of lower capital spending, the longest such period in two decades).

