

GLEANINGS II – 887
Thursday July 1, 2021

Americans on the move during the Independence Day long weekend – According to the AAA, despite gasoline prices being up 48.6% YoY, 10MM more Americans are set to hit the road this year during the July 2 weekend, up 34% YoY, and daily car rentals are up 86%. And the airlines are expecting 3.5MM travelers to take to the skies (7x times the number of those who did so this weekend last year & roughly 50% more than in 2019). Still, with 47.7MM Americans expected to be travelling across the US by all means of transportation this weekend, their number will still be slightly below 2019's record 49MM.

Israel has a new President – Israeli Presidents can only serve a single seven-year term. So, with that of Reuven Rivlin, the incumbent, ending on July 9th, two candidates threw their hats into the ring. One, Isaac Herzog is a lawyer & politician who served as a minister under Ehud Olmert is a long-time Labor Party member, and the other, Miriam Peretz, an educator & public speaker, whose two eldest sons (of her six children) died in action serving in the IDF.

Both ran as 'independents' & on June 2 the Knesset voted 87-26 for Herzog to replace Rivlin (even though he had consistently trailed Peretz in the few polls conducted). The election was a muted affair because a) this was not a popular-, but a Knesset-, vote and b) since 2013 candidates haven't been allowed to raise third party funds to finance presidential campaigns.

New Space Race? - Ten days or so ago, Jeff Bezos announced that on July 20 he expected to travel to *the edge of space* in his Blue Origin company's New Shepard space vehicle rocket, accompanied by his 6 year younger brother Mark & by the now 82 year-old Mary Elizabeth ('Wally') Funk (who since age 21 has made many "firsts" in aviation and aviation management & control circles, and clearly wants to make another; for she was the winner of a US\$28MM public auction of the third spot. And then on July 1 Virgin Galactic announced that on July 11 it would launch another test flight of its space vehicle (that has been approved to carry passengers *at US\$200-250k each*) and that on this occasion it would carry not just the two pilots but also Richard Ransom himself & several of its technical people. – *This is, only semi-jokingly, referred to as the "billionaires space race" (that also includes Elon Musk). So, while ordinary Americans worry about more mundane, 'bread & butter' things, the 'idle rich' can start competing with each other about their 'space tourist' rankings.*

PCE – Since 2012 the Fed has been using PCE (Personal Consumption Expenditures) as its 'prime inflation index' because, whereas the CPI is based on the prices paid by **urban** households, it is based on those paid by **all** households (& *because it produces lower readings?*) So it must have been disconcerting when in May 'core' PCE ¹ hit 3.4% (a post 2008 high), up from 3.1% in April (*when 2.9% had been expected*) & 1.9% in March.

Robin Hood fined US\$70MM by FINRA (the Financial Industry Regulatory Authority) – Its IPO & the news that in 2020 its revenues had been up 245%-, and in the First Quarter 309%-, YoY overshadowed the news that it had been fined, among others for improperly approving some customers for options' trading – *Its revenue growth in part explains the ongoing strength*

1 Excluding food & energy, which has always struck me as sort of unworldly since the two of them account for close to 20% of the average US household spending.

of the stock market; for retail traders now apparently account for 25% of all stock market transactions while historically their share had been more like 10%. Much of that is accounted for by Robin Hood members and other newcomers, many of whom know little about the stock market per se but started day trading to make a few bucks while sitting at home yiddling their thumbs (I always love the story of the former Goldman Sachs partner who reported that his son's friends didn't have time any more to play computer games because they were too busy day-trading; the only problem was that his son was only 10 years old!

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JUNE JOB REPORT : ECONOMY ADDS BACK 850,000 PAYROLLS, UNEMPLOYMENT RATE TICKS UP TO 5.9% (Yahoo!Finance, Emily McCormick)

- Non-farm payroll numbers were up 850,000, up from 583,000 in May (that had been revised upward from the originally reported 559,000) and the 720,000 expected;
- The unemployment came in at 5.9%, up from the 5.8% in May & the 5.6% expected;
- Average earnings were, as expected, 0.3% MoM, down from a downwardly revised 0.4% in May; and
- On a YoY basis hourly earnings were up 3.6%, as expected, and well up from a downwardly revised 1.9% in May.
- President Biden subsequently noted in 'remarks to the public' that "This is historic progress, pulling our economy out of the worst crisis in 100 years, driven in part by our dramatic progress in vaccinating our nation and beating back the pandemic ... Today, the US is the only major developed economy where the OECD projections of future output are higher than they were in January 2020 before the pandemic hit".

The YoY wage increases may be enough to convince at least some FOMC members that more may be needed than a suggestion of possibly two rate increases in 2023.

MOST HOMES IN LYTTON BC DESTROYED BY CATASTROPHIC FIRE (CBC News, Rhianna Schmunk)

- The over 1,000 people living in, & around, this small town about 150 kms/88 miles, as the crow flies, Northeast of Vancouver & about half that distance Southwest of Kamloops, had to leave it on very short notice on Wednesday June 30 before one of the most dire wild fire emergencies turned it, & everything in it, into ashes.
- According to Mayor Jan Polderman, who issued the *urgent* evacuation order at 6:00 p.m. Wednesday June 30, "I noticed some white smoke at the South end of town and within 15 to 20 minutes the whole town was engulfed in flame." Because people fled so post haste in all directions, the authorities were flooded with calls inquiring about the whereabouts of family or friends, without having much by way of answers.

Several people, as they drove away filmed the scene which, when shown on TV, looked pretty scary. Prior to the fire Lytton had three days of extremely hot dry weather with temperatures as high as 49.6° Celsius/121.3° Fahrenheit, all time Canadian record highs that beat the existing record by 4.6 degrees Celsius.

All this is due to a ridge of extremely high pressure, that has barely moved for days and has been blamed by experts, & by President Biden in a speech on Tuesday, on climate change. It

has sat, without moving much, in the sky from California to the Arctic Circle & raised havoc everywhere. Here in Edmonton we have had daily highs of 38° C that make people in my building whine endlessly about the heat & necessitated my watering my gardens first thing in the morning & again last thing at night. In Vancouver the police had an unusually high 130 'sudden death' calls in five days (with one officer observing "people were arriving at relatives' homes, finding them dead"). Portland & Seattle had highs of 46.1 and 42.2 degrees that were the highest since records started being kept in the 1940s. And in the latter city one man was admitted to hospital with third degree burns to his feet after walking (presumably barefoot?) on asphalt while in the former the heat melted the cables of its Street Car Service. And farmers everywhere fear that without rain soon, their crops will, literally, soon be 'toast'!

IS CHINA'S BIRTH RATE LOW ENOUGH TO CAUSE A POPULATION CRISIS?

(Global Times, Zhang Hui & Liu Xin)

- In early May the 30-page, seventh National Population Data report was made public. It raised the question as to whether Chinese couples' unwillingness to have more *than one* child is about to create a population crisis. Chinese demographers are divided on the issue & have been vigorously debating it ever since. For they differ in their interpretation of China's 1.3 fertility rate – *one of the lowest in the world, & well below the 2.1 "replacement rate",* and in their assessment of the seriousness of the situation & the need for incentive policies to have more births as the population ages.
- While some demographers are deeply troubled & want the government to spend as much as 10% of GDP to reward births by giving 1MM yuan/US\$155,400 bonuses for **each** new child a couple has (*i.e 36.3x China's 2020 annual per capita disposable income* ²), others contend that China is still the world's most populous country with abundant labor resources ³ & promising economic development prospects.

This article is doubly interesting because it was published in what is the official mouth piece of the China Communist Party & because it contains charts illustrating how China's population has aged since 1964 (with India's current age distribution shown for perspective reasons) :

	Average Age Composition		
	China 1964	China 2020	India 2020
0-14	40.4%	18.0%	26.3%
15-59	54.1%	63.4%	63.1%
> 60	5.5%	18.7%	10.7%

The worriers are likely to be proven right. While it still is the world's most populous country (with a population of 1,397,715,000 vs. India's 1,366,417,750) it stands to lose that status in the foreseeable future (& 'lose face' in the process?). For India's population, with 17.6 live births per 1,000 annually, is growing at a 0.99% annual rate vs. China's with 11.4 at 0.39%. It's 1.3 fertility rate is among the lowest in the world & well below India's 2.1 "replacement rate" And

² Which, since the 2020 US per capita disposable income was US\$47,673 would be akin to Washington paying parents US\$1,730,530 for a new baby!

³ This is outright wrong. The number of people in the 15-59 year age group has now fallen below 900MM (63% of the population, down from 70% a decade ago) and, according to the Economist Intelligence Unit could decline another 5% over the next decade, while according to Larry Hu, the Sydney, Australia-based Macquarie Group's Chief China Economist, "The brutal fact is that China is aging rapidly ... And a more brutal fact is that China is getting old before it is getting rich."

the number of babies born in China declined between 2016 & 2020 by almost one-quarter to 12MM (as the one-child policy has been replaced by Beijing first exhorting women to have at least two-, and in short order three-, children, these moves seem to have fallen on deaf ears for cost-, career-, or personal reasons).

This week China is engaged in an orgy of celebrations to mark the centenary of the founding of the Chinese Communist Party. And President Xi took advantage of the occasion to engage in some belligerent oratory, warning that “bully nations would get their heads bashed in”, hailing the arrival of a “new world order” and reiterating his commitment to the integration of Hong Kong & the “reunification” of Taiwan. And he may ‘feel his oats’ since China now has, manpower-wise, the world’s largest armed forces, with the PLA’s “active service” headcount at 2,185,000 (vs. India’s 1,400,000 & the US’s 1,140,191) and its alleged possession of missiles that would come in from space at Mach 5 speeds at the US aircraft carriers that the US Navy has yet to develop a defensive capability against. And seeing himself as Mao Tse-tung 2.0, with his planned confirmation as ‘President for Life’ (rather than retiring after two five year terms in office) looming in 15 months, he has cranked up his appeal to the Chinese hoi polloi’s xenophobia by feeding them a steady diet of ‘a century of humiliation’ propaganda.

But, with the benefit of hindsight, the CPP centenary celebrations may well prove to have been a Last Hurrah” high mark, rather than a growth milestone, for China. For included among the many problems lurking in the wings, other than just the demographic ones, are :

- **China’s trend GDP growth rate** – it now seems to have permanently dipped below the 6.5% that Beijing has long held to be the ‘tipping point’ into social unrest, well below its 2011 recent 14.7% high (while in 2012, when Xi became President, it still had been 7.9%). And Xi, by seeking to increase the role of the CCP in economic decision-making, & to reverse many of Deng Xiao-ping’s ‘Open Door’ economic policies, is more likely to enhance the Chinese economy’s down-, rather than its up-, side growth potential, if only because in the Soviet Union the Communist Party’s similar role in the economy contributed to its eventual downfall three decades ago;
- **Water** – Over-extraction of water from China’s aquifers has resulted in groundwater tables dropping everywhere, & dropping further; years ago already the World Bank reported that “wells in the Beijing region are over 1,000 meters deep ... with the drillers chasing the groundwater down.”⁴ And the fact that Shanghai has sunk 6 meters in the last century has been attributed for 70% to groundwater removal from the aquifer underlying the metropolis (& for only 30% to the increased weight of its modern urban infrastructure). And the same holds true for China’s surface water resources. Some 50 once rivers of substance are now mere dry river beds on a year around basis while as far back as 1997, Northern China’s Yellow River, the country’s then second-longest after the Yangtze, quit running into the sea for two out of three days in the year⁵. And while the East-, & Central-, Corridors of the, by Mao Tse-tung conceived, & much dreamt-about, South North Water Diversion Project have been carrying water from

4 This reminded me of an article, almost half a century ago when I owned a dairy farm, about an irrigation farmer in Arizona who had been able to convince the IRS to let him to depreciate his farm by proving to it that the water level in the aquifer below was dropping at such a rate that in twenty years it would no longer be economically feasible to use groundwater to irrigate his land

5 And this is not an isolated case. Thus America’s Colorado River now very seldom, if ever, empties into the Pacific Ocean and in Central Asia the rivers flowing into the Aral Sea that since Krushchev’s days it has been reduced 74% in area & 90% in water volume. (and its salinity increased nine-fold!)

China's Southern rivers to the water-deficient Northeast (that includes Beijing) at a capital cost of US\$37BN, Premier Li Keqiang recently resurrected the idea of building the final US\$23BN West Corridor component of the project. And that would be very controversial since it would syphon water out of rivers on the Tibetan plateau that currently feed those that are the life blood of the economies in South Asia (India/ Bangladesh) and Southeast Asia (Cambodia, Laos, Myanmar & Vietnam which in a best case scenario would lead to a major loss of China's 'soft power in the region & in the worst case to outright war between China & India;

- **Ability to feed itself** – China has only about 0.85 hectares of farm land per capita (less than half the 2.0 hectare global average, and down from 0.95 hectare in 2000 & 1.6 hectare in 1961.) vs. 0.27 hectare in places like Cambodia & Vietnam, and 0.12 in India). And in the past twenty years its food imports have skyrocketed from US\$5BN to US\$53BN for bulk products like grains (much of it to feed livestock for meat?), from US\$3BN to US\$21BN for 'intermediate products (like soybean meal rather than soybeans themselves) and from US\$2BN to US\$54BN for meats; in other words, its annual food product imports in those 20 years grew from US\$10BN to US\$128BN (i.e. at a CAGR of 13.9%, marginally faster than that of the economy as a whole). And its farm land base has shrunk from 126MM hectares in 1991 to 119MM hectares today (i.e. by 5.9% as its population grew by 21.4%) due to urbanization & desertification (and its average productivity has declined since because their forefathers, like ours, were peasant smart enough to settle on the best soil they could find, which has, over the years, increasingly been black-topped as the urban sprawl spread further & further afield); and
- **China a financial train wreck in the making?** - While its national debt-to-GDP ratio, at 67%, is modest by international standards, it's almost twice the 34% of a decade ago & expected to rise to 86% by 2026. But in term of its 'total indebtedness-to-GDP ratio'⁶ it's a horse of a different colour; for while between 2010 & 2020, that ratio remained in the US in the 250% range (largely due to the large paydown of household debt after the Great Recession?), increased by 4% in the Euro area to 260% & by 9% in Japan to 380%, in China it jumped 58% to 300% (which has major implications for China's national debt-to-GDP ratio since a significant portion of that growth was accounted for by SOEs that Beijing has, for political reasons, kept 'off balance sheet'. And then to make matters worse, trillions of dollars has been spent by Beijing on programs with questionable short-to-medium terms paybacks, like the Belt and Road one & loans loans to well over a hundred other countries, many of them of questionable credit quality, by local governments on 'marquee' projects whose main purpose was to generate revenues from land sales of boost its GDP growth number for political reasons while the rapidly growing consumer debt has fed a residential real estate market (that has been a mainstay of the reported GDP growth numbers but that sooner or later will succumb to the population aging & starting to decline

And to top it all of, one cannot help but wonder what might be the outlook for a country in which its citizens cannot safely eat much of the food it produces, the water that comes out of the ground and/or from its rivers, and breathe the air around them.

CHINESE PRESSURE UNDERMINING AUSTRALIAN UNIVERSITIES (BBCNews)

⁶ The aggregate national-, & local-, government-, financial-, & non-financial-, corporate-, small business-, & household-, debt

- Chinese university students in Australia (of which there are no fewer than 160,000 – 10+% of the total), fear punishment for their family back home if they speak out openly on sensitive issues. And a report by Sophie McNeill of the New York-based Human Rights Watch (HRW) reported that they feel surveilled in Australia.
- Australia's higher education system is heavily reliant on *high* tuition fee-paying Chinese students to make ends meet. Pre-COVID they accounted for 40 % of all foreign students in that country. And in recent years, as Australia's relationship with China deteriorated, there have been growing concerns about Chinese influence on the country's university campuses.
- HRW, in interviews with 50 students & academics in Australian universities on the matter, encountered an "atmosphere of fear" that had worsened in recent years and had found three cases in which students' activities at Australian universities had prompted visits by the police to their families in China, and at least one case in which a student had been threatened with jail for opening a Twitter account in Australia on which pro-democracy messages had been posted. And 22 academics who teach China studies in Australia also had faced increasing pressure, with about half of them now practicing 'self-censorship' (in some cases urged by management not to discuss China publicly), with one having actually refused official requests for a 'sanitized' version of his Chinese studies course when he taught it online to students in China.

Some Canadian universities too are very dependent on foreign students for funding, with Edmonton's University of Alberta (that has a full-fledged recruiting operation in China) among the more rapacious ones, charging foreign undergraduate students up to 5x what their Canadian counterparts pay. And then there are the Confucius institutes, of which there are several hundred all over the world; while officially they exist to promote & help pay for the study of Chinese languages & culture in schools, colleges & universities, they are in reality part of the Chinese Communist Party's propaganda machine. Fortunately, they never caught on as much in Canada as the US. Once there were 14 in Canada but McMaster University closed theirs in 2013 & the Toronto School Board the following year, while in 2019 New Brunswick ended its primary & middle schools' Confucius programs, planning to do so in its high schools in 2022.