

GLEANINGS II - 799
Thursday February 28th, 2019

Per capita GDP-, & Gross Debt to GDP ratio-, growth patterns in major EU economies –

<u>Real per capita GDP (1999=100)¹</u>	2007	2012	2017	
France	119	111	114	
Germany	112	120	129	
Italy	110	99	101	
Spain	120	109	122	
UK	176	147	140	
US	138	149	172	
Canada	201	237	203	

<u>Gross debt-to-GDP Ratios</u>	1999	2006	2012	2017
France	60%	65%	91%	97%
Germany	60	67	80	64
Italy	110	103	123	132
Spain	61	39	86	98
UK	40	67	84	88
Greece	99	104 ²	160	179
US	55	60	100	105
Canada	80	71	85	90

Canadian economy sliding? - In 2Q/17 the Canadian economy grew by 1.1% on a QoQ basis & one year later by little more than half that (i.e. 0.6%) and then in 3Q/18 & 4Q/18 by 0.5% and 0.1% respectively. As a result, while in 2017 Canada's GDP had grown by 3.0%, prompting Prime Minister Trudeau to crow from the roof tops that Canada had the fastest-growing economy among the G-7 nations, last year that had declined to 1.8% - *The apple does not fall far from the tree; thus like Trudeau Père Trudeau fils has no knowledge of-, or interest in-, economics and is more interested in how to divvy up the nation's economic pie than in growing it. And this economic deceleration is the more remarkable since, while he inherited a budget that was basically in balance, under Trudeau fils double digit government deficits have become the rule rather than the exception & are forecast to continue as far as the eye can see - this reminds me of the rather astute observation 25 years ago by the Interest Rate Observer's James Grant that 'Canada is covered for 10% by water and for the other 90% by debt'.*

Wednesday February 27th was a day in which the public on both sides of the US-Canadian border got an insight into the seamy side of national politics - For in Washington Trump's former 'fixer' Michel Cohen spent one of his three seven hour days testifying under

¹ All but the US numbers should be treated with care; for they are denominated in US dollars; so currency fluctuations will affect the outcomes.

² This was after Goldman Sachs had started underwriting international bond issues for Greece whose prospectuses didn't mention the "off-market swaps" it had started doing to hide Greece's dismal fiscal situation when former Bank of Italy Governor, & now ECB President, Mario Draghi, had been Vice-Chairman of Goldman Sachs International as well as a member of the parent company's management committee.

oath before Congressional Committees ³ in a public-, rather than “behind closed doors”-, session before the House Oversight and Reform Committee ⁴ during which he tabled a series of documents that didn't reflect well on Trump, incl. a letter he had sent on Trump's behalf, one month before he had entered the race for the Presidency, to the Rev. Joseph M. McShane SJ, the President of Fordham University (that Trump attended for two years before transferring to the University of Pennsylvania's Wharton School) which read in part “my client does not consent to any release or disclosure of his educational records to any third parties and ... in the event any of his records are released or otherwise disclosed without prior consent, we will hold your institution liable to the fullest extent of the law , including damages and criminality ...” - *wanting to hide his academic (non?) achievements would seem to give the lie to his claims that “I am a very intelligent person ... I went to an Ivy League college (which Fordham isn't but the University of Pennsylvania is) ... I did very well.”* And in Ottawa Jody Wilson-Raybould, Canada's former Justice Minister cum Attorney General spent much of the day giving what some called “bombshell testimony” before the House Justice Committee on the SNC-Lavalin corruption affair, that painted a most unfavorable picture of Prime Minister Trudeau & his political minions in the PMO (Prime Minister's Office) and, to many people's surprise, of the Clerk of the Privy Council, the country's top civil servant, *whom she portrayed as a political hack whose partisan role in the affair had been unlike the (largely?) non-partisan tradition of Canada's public service.*

The Atlanta Fed's March 1st GDPNow reading was a shocker – At 0.3% it was down from 1.8% a few days earlier and one can only hope it was a false reading - *the next reading is scheduled for Monday March 4th.*

Trump name disappearing from New York's Riverside Blvd. - In the 1990's Trump built six luxury condo buildings there. Recently, the condo association of one of them, at 220 Riverside Blvd. between 65th & 66th Streets (*average rental rates US\$58/sf & selling prices US\$1,114/sf*), voted 55-45 to have the Trump name removed from their property at an estimated cost of US\$15,000 per letter, the last of the six to have done so - *While this will not affect Trump Organization financially & there remain a number of other Trump-named buildings in Manhattan, according to the research firm City Realty they have one thing in common, the value of units in them started slipping in 2016 & have continued doing so to this day.*

Trump returned from Hanoi with his tail between his legs - His walk-out was so sudden that the table set for a ‘working lunch’ never seated anyone. Apparently he had ignored warnings by a number of officials, most prominently Secretary of State Mike Pompeo (*who usually is pretty much a ‘yes man’*), not to get his hopes up about being able to achieve a breakthrough.

The straw that apparently broke the camel's back for Trump was Kim's demand for an end to all sanctions on his country. And with his failure to get a deal, his dream of getting the Nobel Peace Prize went up in smoke (which had been unrealistic anyway since the regard in which he is held in Europe is no higher than a grasshopper's knee, and at last report his approval rating in Norway was in the single digits).

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³ That apparently intrigued his Congressional audiences sufficiently that he has been scheduled for more of the same next week.

⁴ One of the real fascinating aspects of which was that the GOP members of the Committee limited themselves to calling him a convicted perjurer who in May will start serving three years for that misdeed while not a single one said a word to defend Trump from Cohen's allegations.

FED'S POWELL : "MUTED INFLATION" GIVES ROOM FOR WAGES TO RISE (Reuters, Joshua Roberts)

- He said on February 28th that last year's rising productivity had created more room for wages to grow without higher inflation, thus providing another reason why the Fed can hold off on further rate increases. More specifically, he told New York's Citizens Budget Commission that "signs of upward pressure on inflation appear muted despite the strong labor market ... More plentiful jobs and rising wages are drawing more people into the work force ⁵ ... Business sector productivity, which had been disappointing during the expansion, moved up ... Rising productivity allows wages to increase without adding to inflation pressures." He was one of three senior Fed officials whose comments that day expanded on the Fed's *announced* "patient approach" to further rate increases, the others being Fed Vice Chair Richard Clarida who said the Fed should discount any models that project a surge in inflation & wait for the incoming data to prove it's happening, and Dallas Fed President Robert Kaplan who advocated the Fed should wait until at least next June before making any further interest rate decision.

Were these utterances politically-driven? If so it would be worrisome especially since they caused some economists to think the Fed will be on hold interest rate-wise for the rest of 2019 & others that its next move may even be to cut rates.

HERE'S WHY AVERAGE US REFUND CHECKS ARE DOWN 16% FROM LAST YEAR (CNBC, Dario Mercado)

- Not only are they on average 16.7% smaller-, but the number of refund checks going out is down 26.5%-, YoY, and in some cases tax payers who had expected refunds found they actually owe the IRS money. The reason for this is very simple, under last year's new Tax Cuts and Jobs Act the withholding schedule was reduced to put more of their earnings in tax payers sooner for them to spend.

So as workers spent more of their earnings last year, they were 'borrowing' GDP growth from this year, thereby creating another 'boat anchor' for this year's GDP growth.

US PERSONAL INCOME FALLS : SPENDING WEAKEST SINCE 2009 (Reuters, Lucia Matachewan)

- After 'jumping' 1.0% in December, in January personal income slipped 0.1%, for the first time so since November 2015, due to lower dividend-, & interest-, income flows and lower farm income. (& *the 35 day government shut down?*). And in January wages were up only 0.3%, down from 0.5% in December [causing households cut back on their purchases of motor vehicles (*down 4.8% to a 16.7MM annual rate*) & recreational goods]. And it was also reported that in the Fourth Quarter the economy had grown at an annualized 2.6% annualized rate (down from 3.4% in the Third Quarter).

This is bolstering economists' expectations the economy will slow down further this quarter as the momentum from the US\$1.5TR tax cut-, & government spending growth wanes.

'THEY CREATED AN UNDERGROUND' : INSIDE THE CHAOTIC EARLY DAYS OF TRUMP'S FOREIGN POLICY (Politico, Nasal Toosi)

⁵ Oddly enough, the participation rate remains near 40-year lows in the 63%, well below the 67.6% all-time high not that many years ago.

- It's most pertinent sentence likely is "Now, two years into Trump's tenure, current & former US officials say they are worried about the long-term damage his administration is doing *and about the way* critical *foreign-*, & *national security-*, decisions are being made, with dangerous consequences that are not always easy to perceive"

Historically policy development decisions made for the common good was always done rationally with input from many sources, whereas under Trump it is often a function of 'spur of the moment' larks that stroked the ego of the current occupant of the Oval Office.

CANADA APPROVES HUAWEI EXTRADITION PROCESS, SPARKING IRE FROM China (The Guardian/Reuters)

- *Last December 1st Meng Wanshou, Huawei's CFO & Vice Chair, and daughter of Ren Zhengfei, Huawei's founder was detained in Vancouver (while in transit from Hongkong to Mexico) at Washington's request and spent a few days in jail before released on \$10MM bail & placed under house arrest in one of the two homes she & her husband own in Vancouver ⁶. And in late January the US Justice Department formally charged her, & Huawei, with conspiring to violate US sanctions on Iran (and with bank fraud) and formally requested her extradition.*
- *Ottawa has now approved her extradition & she is scheduled to appear in a Vancouver court room next Wednesday, March 6th for a date to be set for her extradition hearing (although given the scope under Canadian law for serial appeals against extradition orders, it could take years before she might actually be extradited). This has put Beijing's nose severely out of joint & further worsened the already seriously deteriorated China-Canada relationship. China's Foreign Ministry spokesman Lu Kang issued a statement on March 2nd that Beijing "deplores and firmly opposes ... Canada's side obstinately moving forward the so-called judicial process ... This is a severe political incident. We once again urge the US side to immediately withdraw the arrest warrant and extradition request for Ms. Meng and urge the Canadian side to immediately release Ms. Meng Wanzhou and ensure she return to China safe and sound". And when Ottawa rejected Beijing's calls for her release, saying it cannot interfere with the judiciary, the Chinese Embassy in Ottawa weighed in with a statement that "The Chinese side is utterly dissatisfied with and firmly opposes the issuance of the authority to proceed" (with the extradition process) & Beijing responded by questioning the state of judiciary independence in Canada, given the recent uproar about the government having tried to interfere to stop a corruption trial (in the SNC-Lavalin affair) - OUCH*

There is little doubt that Beijing will retaliate further, with the farm community worried it will cut, or altogether halt, the import of Canadian farm products & the universities that it will lead to a drying up of the cash flow from the high tuition fees paid by their estimated 140,000 Chinese students. And this may well have lose-lose consequences for Washington in the US-China trade negotiations; for if Trump were to drop the charges against Meng (as he has said he could do), he would make the US look a 'paper tiger' on the geopolitical scene while if he doesn't the US-China trade negotiations could become a great deal 'stickier' since that would entail a huge 'loss of face' for Beijing. Meanwhile, while conceding that the loss of business due to the US action would be significant, Ren Zhengfei told the BBC on February 25th "There is no way the US can

⁶ All of which irritated Beijing to the point that it arrested two Canadian citizens in retaliation, one a regular visitor with semi-diplomatic status & the other a permanent resident, and bumped the sentence of a third, convicted drug smuggler Canadian, from 15 years to death.

crush us. The world cannot leave us because we're more advanced. Even if they persuade more countries not to use us ...we can always scale things down a bit ... I object to what the US has done. This kind of politically motivated act is not acceptable" (a clear case of the pot calling the kettle black) And he claimed Beijing had not installed backdoors on its equipment & that Huawei would never do so on its own. And, rather interestingly, at the same March 2 press briefing Lu Kang in response to a (planted) question by a reporter for a Communist Party-controlled news outlet "if it was not contradictory that Prime Minister Trudeau had claimed he couldn't interfere in the Meng case, while at the same time he had been accused of having interfered in the SNC-Lavalin case?" noted that he "really liked" the question and that "of course I think this is a question that should be asked of the Canadian government ... In fact, on this case you have mentioned people in Canada are paying a great deal of attention ... Not only Chinese and Canadian citizens but the whole world are extremely interested to hear how the Canadian government answers this question." (according to a Washington Post reporter present at the briefing Lu's tone sent a clear message to Ottawa : "We know you are weak!".

INSIDE IKEA'S STRATEGY TO STAY RELEVANT AS CONSUMERS CHANGE **WSJ, Saabira Chaudury)**

- Furniture giant IKEA has announced plans to open 30 new 'city-centre' stores, slash thousands of *existing* jobs & create more *new* ones in areas like home delivery.

Its shift into the inner cities may herald a recognition that North American cities' 65-year headlong expansion into suburbia' has run its course. For it makes no economic sense since all across North America the incremental tax revenue for city government' coffers generated by a new home in the 'boondocks' is outstripped, at a rate of 135 to 100, by the incremental cost of providing services to it. Secondly the new homes in the boondocks are now almost universally badly built, have increasingly less 'eye appeal' since they are like peas in a pod & jammed one of top of another with minuscule yards, and require home owners to be two car families (with the growth in the cost of maintaining & insuring cars having far outstripped that of family incomes). Thirdly, in the years to come Baby Boomers will increasingly change from individual home occupancy into more communal living modes, thus providing scope for more higher density 'infilling' & for more competition for new-builts on the cities' peripheries. Thus a few years ago when I did the Edmonton City Census in my area of downtown, it was eye-opening to see how many young couples with small children there were living downtown in apartments (where they can get along with owning just one car & accessibility to just about everything in the city is far easier & cheaper than in the boondocks). And in recent years the amount of new residential construction in the downtown area has been stunning. And it is also worthy of note in this context that one high profile developer of downtown residential high rises is now including 3BR units in his latest two buildings in the city core because "the demand is there"

KIM SHUFFLES NUCLEAR TALKS TEAM AFTER DEFECTIONS, SPYING ALLEGATIONS **(Reuters, Hyon Hee shin)**

- According to South Korean sources veteran North Korean diplomats are being sidelined from the nuclear talks ahead of the second Trump-Kim summit as defections & spying allegations have undermined Kim's trust in them. Thus he has appointed little known Kim Hyok Chol (who is believed to be in his late 40's)⁷, to spearhead the working level talks

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A former ambassador to Spain who was expelled from that country in 2017 after North Korea's nuclear tests & who has since been working at the State Affairs Commission, a top governing body chaired by Kim himself

with US nuclear envoy Stephen Biegun⁸, replacing Vice-Foreign Minister Choe Son Hui who had led the negotiations in the run-up to the first Trump-Kim Summit in Singapore in January 2018. Hyok's promotion is believed to have been in part a function of the 2016 defection of Thae Yong Ho, a former Deputy Ambassador to Britain, & the more recent 'disappearance of Jo Song Gil, a senior North Korean diplomat in Rome. And Kim's growing distrust of senior diplomats is also believed to have led to the purging last year of Han Song Ryol, the Vice Foreign Minister in charge of US relations, on a charge of spying for the US (before returning home in 2013 he had been one of the best known & respected North Korean diplomats in the US who for years had manned the "New York Channel", a key diplomatic conduit between Pyongyang & Washington). But after returning home in 2013 he hadn't been much in the public eye, with the last mention of him in the state media having been a year ago, with South Korea's Unification Ministry having removed his name last month from its Annual Who's Who in North Korea Directory (he supposedly was "purged" last year accused of spying for the US & of pocketing money.^{9 10}).

In 2017 the North Korean Strategy Center, a defector-run Seoul-based think tank reported that, based on interviews with 20 'elite' defectors, it estimated that over 70 officials, incl. 10 diplomats, have been executed since Kim came to power in late 2011 (as well as his uncle & his half-brother), all of whom were replaced by (much) younger loyalist aides.

NETANYAHU TO BE INDICTED ON CORRUPTION (& FRAUD?) CHARGES, ISRAELI ATTORNEY GENERAL SAYS (The Guardian, Oliver Holmes)

•On Thursday February 28th, six weeks before the April 9th election, Avichai Mandelblit, Israel's Attorney General announced plans to indict Netanyahu in three corruption cases, something that could severely damage his chances in a tight *election* race (especially since he was believed to have scheduled the election several months earlier than need in order to make it more difficult for the Attorney General to do so if he had a brand new election victory under his belt. While under Israeli law he can defend himself in a pre-trial court hearing before the charges are formally filed and/or potentially persuade the Attorney General not to proceed, it is by no means clear that either could be done by April 9th. And although he has *long* denied all such allegations, dismissing them as part of a witch hunt orchestrated by the press (*sounds familiar?*) & in a televised statement on Thursday evening February 28th (after a hasty return from Moscow where he had been meeting with Putin), had gone on record saying "this entire house of cards will collapse", the weight of the Attorney General's announcement throws serious doubt on

⁸ Age 56, he graduated in 1984 from the University of Michigan with a BA in Russian & Political Science. He came to this job last August from that of the Ford Motor Company's Vice President of International Governmental Affairs and prior to that had been, among others, Executive Secretary of the National Security Council during the Bush 43 years & policy adviser to Sarah Palin in 2008, and had been rumoured to be in line to succeed H.R. McMaster (a job that eventually went to John Bolton. He is also a Member of the Boards of the US-Russian Foundation, the Moscow School of Political Studies, the US-Russia Business Council and Ford Sollers, that company's joint venture in Russia since 2011 (*which has been a disaster and at last report had cost the company US\$1.5BN, as the Russian car market crashed due to low oil prices & Western sanctions to the point where total car sales are less than half the 2.9MM in 2012 & Ford's own sales in 2017 were just 40,000, down from 190,000 in 2008.*

⁹ Which in Kim's world can mean anything from being sent to a "re-education camp" or being executed (with Kim's favourite method being to so the guilty being blown apart by anti-aircraft gunfire.

¹⁰ According to South Korea's Chosun Ilbo newspaper he incurred Kim's ire by making a proposal for the nuclear talks that was not in accordance with the Workers' Party guidelines.

his election chances & his political future. This came after Netanyahu's right wing Likud Party had petitioned the High Court earlier on February 28th to block the Attorney General's announcement on the grounds "the unilateral publication of the Attorney General's announcement a month before the election without giving the Prime Minister an opportunity to refute these false accusations is a blatant and unprecedented intervention in the elections", a move the court rejected *in short order*.

For all it's worth, Netanyahu received support from President Trump who told reporters in Hanoi that "I can say that he's done a great job as Prime Minister. He's tough, he's sound, he's strong." Still, according to the Times of Israel this could cost Netanyahu four seats in the Knesset & scupper his chances of forming another coalition government (especially since several key Netanyahu allies had declared earlier they wouldn't support him if the Attorney General were to proceed with an indictment) This must have been a very difficult decision for the Attorney General ; for he had inherited the case from his predecessor and it had taken two years of intense deliberations & questioning before the police finally had recommended several months ago (after Mrs. Netanyahu had been indicted on not dissimilar charges) that Netanyahu himself be indicted in all three cases it had been investigating. For Mandelblit & Netanyahu go back a long way : during his tenure as the IDF's Advocate General he had fought the Goldstone Report ¹¹, impressing Netanyahu to the point where he had made him Cabinet Secretary in 2013 & Attorney General in February 2016 in the face of opposition of those who feared he might be conflicted if Netanyahu were to get into legal troubles (as was indeed the case; for just five months into his stewardship, in July 2016, he had to launch a review of the Prime Minister's activities, hoping to soft pedal it & save the Prime Minister embarrassment (something he was criticized for by those on left of Israel's political spectrum, even though he has an impeccable right wing background & is known to admire Netanyahu as a statesman (so his plan to indict Netanyahu does reflect the strength of the case against him & the depth & breadth of popular opprobrium against him?). Meanwhile, the latest opinion polls haven't changed much, with the Blue and White group heading for 36 seats in the 120 seat Knesset, Likud 29 & Netanyahu's current coalition 57 (down from the current 61). And one thing that has gone largely unnoticed is that the current Knesset has 17 Palestinian members (i.e. 14% whereas the Palestinian/Arab share of Israel's population is more like 21%), 12 of whom are on the so-called "Arab List" & five on those of other parties (one each on that of the right wing, Russian speaker, nationalist Yisreal Beitenu/Avigdor Lieberman's party, one on that of the left-wing, social-democratic green Meretz party, one on that of the social-liberal Kulanu party, another on that of the social democratic/two state solution Zionist Union & the final one on that of Netanyahu's right wing Likud Party. And the possibility cannot be ruled out that in the April 9th election, given a seemingly viable alternative to Netanyahu there could be a higher Palestinian/Arab voter turnout and that after the election the Palestinian/Arab members of the Knesset would support any government headed by someone other than Netanyahu, even if not officially part of whatever alternate coalition government may ensue.

FRANCE SEES GLOBAL TAX DEAL ON DIGITAL GIANTS IN 2019 (Reuters)

- Last January some 127 countries agreed to tackle some of the most disputed issues of international taxation, such as where the digital firms' cross-border income should be taxed. And according to Bruno Le Maire, France's Finance Minister, a planned revision

¹¹ Officially named The United Nations' Fact-Finding mission on the Gaza Conflict that had accused both the IDF & the Palestinians of war crimes, and possibly of crimes against humanity, (that Israel had rejected out of hand as 'prejudiced & full of errors although Hamas had only rejected parts of it and had urged the world powers to embrace all of it).

of international tax rules for the digital era could be drawn up this year after the US & Ireland (*which has been a big beneficiary of the current system*) have indicated they too want a deal. France has been in the van of efforts at the EU-, & international-, levels to change the rules that currently enable companies like Facebook & Google to reduce their tax bills by booking their revenue in low-tax jurisdictions like Ireland, and the OECD has been working on a draft deal that it aims to have ready for consideration in time for the Riyadh G-20 Summit in late 2020.

Le Maire not long ago told Paris-based Public Senat TV that “two years ago nobody wanted to tax the digital firms and it was us French who (managed to) put the subject on the table out of concern for fiscal fairness, justice and efficiency”.

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THERAPY DOGS TO ROAM TORONTO’S PEARSON AIRPORT TO RELIEVE TRAVELERS STRESS (CP)

- In 2017 the airport served over 47MM passengers, making it North America’s second-busiest airport. Recently the Greater Toronto Airports Authority announced 15 dog teams from the St. John Ambulance will start roaming Terminals 1 & 3 of Pearson International Airport on a weekly rotation to help relieve travelers’ tension. People will be welcome to approach & pet the dogs and will be able to recognize them by their red & white bandanas & their handlers by their blue Pearson Airport vests.

The Authority may not appreciate what it’s in for, for soon it may be overwhelmed by demonstrations by cat lovers demanding equal treatment. Meanwhile, whoever wrote this article for Canadian Press didn’t do his/her homework very well, for Pearson is not North America’s second-, but its eleventh-, busiest airport; for while he/she it got the 47MM 2017 passenger throughput number right, that was only a fraction of Atlanta GA Hartfield-Jackson Airport’s 104MM & Los Angeles Airport’s 85MM. like a ‘paper tiger’ like a ‘paper tiger’