

GLEANINGS II - 834
Thursday February 26th, 2020

Note : James Robb MD FCAP entered the University of Colorado Medical School in the early 1980s, became a pathologist, was an early coronavirus researcher & co-wrote the chapter on it in Comprehensive Virology. He wrote an article for today's issue Technology Investor headed "It's going to be a lot worse than you ever imagined. Here's a check list to stay healthy – best I've found." It can readily be googled and can also be accessed on the Slipped Disk website under the heading "Some expert advice on corona virus." – It's all very much common sense, a commodity that these days often seems in short supply.

Quote of the week - "For most Americans, ... *the stock market* is a side-show in their economic lives ... What really matters to them is the security of their jobs and healthcare, and the amount they have to pay for big ticket items like housing and education." - Jacob Hacker, Director of Yale University's Institute for Social and Political Studies.

A few really, really big beneficiaries of the coronavirus outbreak, namely the holders of the 13MM shares outstanding of Markham, Ont.-based Alpha Pro Tech - For after having watched their price creep lower from \$3.85 to \$3.51 in the year ended January 17th (giving it a \$46.6 market capitalization) as the TSE was on a roll, they must have been aghast when on Friday February 28th its closing price was \$21.00 (i.e up \$15.60 WoW & 84x trailing earnings, albeit down from an intra-day, all-time high \$40) - *The reason is quite simple, its product line includes face masks and the White House was reported to have told Reuters "We have the ability ⁶ to tell companies (like 3M & Honeywell) 'No, you change your production line so it is now 80% of N95 masks' "* (This from a White House whose "Prevaricator-in-Chief" was about to call, later that day, on Friday night February 28th, at a pre-Democratic primary rally in South Carolina, that the coronavirus outbreak a "hoax" & the next day in a damage control, rare televised news conference from the White House, reassure Americans their risk from it remains "low".

Bernie Sanders - *If he were to become the Democratic standard bearer, this could mean that the Democratic party (of which he has never been a member, although he has caucused with it in Congress) might take a leaf out of Canada's Conservatives' last year's play book & "Snatch Defeat from the Jaws of Victory" (& that I should start hedging my bets that Trump will be a one-term President) in which case Christmas could come early this year for Donald Trump. For politicians who, like snake oil salesmen, **tell voters what they want to hear and/or & prey on their fears** have typically much better results than dogmatic ones who must **convince voters to believe what they want them to believe**. And it would enable Trump to make mincemeat of Bernie on the campaign trail; for the latter is a proud & vocal self-avowed millionaire "democratic socialist" whose free college tuition & health care cum forgiving student debt promises resonate with the under-40 'Millennial' crowd, but don't with the 72% of American voters over age 34 who instinctively 'know' that socialism is "baaad" since during the Cold War era that axiom was poured into them with their mothers' milk. That, & the fact that the older generations' turnout rate typically is higher than the under 35s', could make Trump's attempt to remain in the White House for four more years (& inflict even more injury on the nation's institutional framework) a "walk in the park".*

China's 'collateral benefit' of the coronavirus outbreak? - According to the Helsinki-based Center for Energy and Clean Air (CREA) over a recent 14-day period China's coal burning-related

⁶ Under the Defense Production Act of 1950.

CO₂ emissions were down 6% YoY (i.e. by 100MM tonnes) & those from the rest of the Chinese industrial sector by up to 40%. And elsewhere it was reported that in recent weeks in China :

- coal consumption for power generation was at a four year low ¹;
- oil refinery operating rates in Shandong Province were at five year lows (partly as a result of which both OPEC & the Paris-based IEA estimate that global demand for oil could be down as much as 0.5% during the January-September period);
- output of key steel product lines was also at five-year lows; and
- domestic airline flights were down as much as 70%.

And NASA recently published two pictures, one taken during the period January 1st - 20th & the other February 10th -25th that showed a remarkable decline in NO₂ levels in the sky over China. While another collateral benefit is said to have been “the return of blue skies”, this suggests that the economic slowdown in China is far greater than indicated by ‘official sources’; for this would require a far greater-than-reported reduction in electricity consumption (for in China two-thirds of electricity consumption is accounted for by industry, about twice the rate in the US).

Coronavirus-related facts & observations :

- “US companies will generate no earnings growth in 2020” - Goldman Sachs;
- “We have cut our global economic growth forecast to 2.8% from 3.2%. This would be the lowest since 2009” - Bank of America;
- “Cases of the new coronavirus are rising quickly outside China, and the odds of the outbreak turning into a pandemic have ... doubled from 20% to 40% - Moody’s Analytics;
- “It’s all about supply shock, against which stimulus measures don’t work” - Olivier Blanchard [Now a Senior Fellow at the Washington-based Peterson Institute for International Economics, he was the IMF Chief Economist (2008-2015) & Head of MIT’s Economics Department (1998-2003) and, prior to that taught at Harvard;
- China accounts for close to 20% of global GDP & one-third of its annual growth, and effects the latter via four main channels, *demand* for commodities & capital goods, and its role in global supply chains & tourism (while in 2018 it generated 150M outbound trips, it’s now virtually zero, as has inbound tourism);
- China produces 50% of the world’s output of face masks and production is down by 25% or more at the very time global demand is soaring;
- “Weekly worldwide container traffic is down 300,000 units” (i.e 10%), whereas, after slow growth in 2018 & 2019, it had been expected until very recently that it’s growth rate would start accelerating again this year - Lars Jensen of Copenhagen-based Sea Intelligence (*which has credibility on this issue since Denmark’s Maersk ocean shipping line controls 15+% of the global container shipping market & is Denmark’s largest GDP contributor*);
- The price of gold has been at a 7-year high & that of oil is at a 31-month low, *the former because historically, most recently after 9/11 & the September 2008 Lehman bankruptcy, it has always been a “safe haven asset” in uncertain times & the latter because OPEC & the Paris-based IEA expect the coronavirus outbreak to result in a sharply lower demand for oil from China, the world’s largest importer thereof*; and
- the incidence of coronavirus cases is likely, & possibly greatly, underreported since it counts **only** the number of those actually tested & found positive.

¹ Every year during the 20 days prior to the Chinese New Year coal consumption drops sharply but, while in the 20 days afterwards recovery consumption typically has recovered to a level only 22% below that 40 days earlier, this year the recovery rate has been 45 % below the 40 day-earlier rate.

To put the public health effect of the coronavirus outbreak (that has been over hyped by the media?) in perspective, it's a pygmy compared to earlier such cases. Thus the 1918 Spanish flu infected as much as one-third of the then 1.8 BN world population & the fatality rate was 4%, while the Black Death of the mid-1300s is believed to have reduced the then 450-500MM global population by one-third (after which it took 100 years or more for the populations of various countries to recover to their pre-Black Death levels). And the short term public health & economic impact of the coronavirus outbreak pale into insignificance compared to its longer-term socio-political-, consequences. For it will reverse the recent decades' globalization trend and decrease the global 'trend' GDP growth rate which would increase inequality in the world & make the world a more fractious place to live in

Coronavirus update - The CW has been that its threat was declining since the growth in new cases in China was abating (*assuming that Being's reports on its status are factually correct?*); but most recently their number has started increasing again, albeit more modestly so than before, from 327 on Thursday February 27th via 427 on the February 28th to 573 on February 29th (*but then, by magic, declined to 200 on Monday March 1st*). According to China's official news agency Xinhua, President Xi has been "advised" that the situation remains "grave & complex", Shandong Province & China's prisons are said to have become new secondary coronavirus 'hot spots', Chinese epidemiologists have found traces of the virus in sufferers' urine, and new cases of the disease include men who've had no human contact for as many as 74 days (*which brings into question the validity of the present 14 day isolation requirement*). In South Korea the number of cases skyrocketed from 30 on Monday February 17th to 204 on Friday February 21st (& at last report 3,150), with its hot spot being the country's fourth largest, 2.5MM inhabitant, city Daegu, that is now under a total lock-down). On February 20th in Italy the count went from 3 to 16 overnight &, after 67 new cases were reported on February 23rd, to over 150, after which the count went via 888 on Friday February 28th to 1,128 on Saturday February 29, prompting the government to shut down football/soccer games & Prime Minister Giuseppe Conti to go on record as saying "The economic impact could be very strong"² (*in part because tourism accounts for 13% of its GDP?*). Positive tests have now been found in as many as 60 countries, incl. Algeria, Austria, Croatia & Switzerland (where all were traced back to people who had recently been in Italy) and, most disturbingly in Brazil (*since that puts the lie to the belief that the virus cannot survive high temperatures, although previously a few cases had been reported in Australia & New Zealand?*). After, on February 20th in Iran the number of cases went from zero to 16 (of whom two who had died), at last report it had gone to over 1,000, with IRNA, Iran's official news agency, reporting that, according to Health official Minou Mohrez, "It's possible that it exists in all cities in Iran".³

² This is an understatement; for its 4Q/19 GDP "growth rate" was an annualized negative 0.3%, after four quarters of a measly positive 0.1% growth rate & prior to that two -0.1% quarters, as a result of which its GDP is now marginally below what it had been in 2017. And to make matters worse, 13% of Italy's GDP comes from tourism & people are staying home!

³ Iran is becoming a particular cause for concern and not just because Iraj Harirchi, the Deputy Minister of Health & Vice President Masoumeh Ebtekar have tested positive for-, and 71 year-old Mohammad Mirmohammadi, a Supreme Leader has died from- the disease or because, according to Dr, Natalie MacDermott, an infectious diseases' expert at King's College, London, the lack of an accurate account of how widespread the outbreak is. But more so because Iranian officials say quarantines are "old-fashioned" & they don't believe in them and recently there have been many visits by Shia Muslim pilgrims to the holy city of Qom (the country's coronavirus "hot spot") all of whom have since gone back where they came from to spread the disease to their countrymen in, among others, Afghanistan, Bahrain, Kuwait, Iraq & Oman.

One Canadian & one Lebanese tested positive after returning from Iran (where the disease is concentrated around the holy city of Qom that the Lebanese 'index case' had just returned from). And in Japan the virus is also on a tear, with 12 new cases on February 24th (incl. 3 boys) bringing the total to 210 (not counting those among the crew of the Diamond Princess) with the government becoming concerned that this may cause its already not overly robust economy to crap out altogether and closing all schools until at least April 1st. Last but not least, at least seven new countries (Afghanistan, Azerbaijan, Bahrain, Iraq, Kuwait, Oman & Qatar have reported 'index cases', all of them people who had recently visited Iran, & the US reported its first two fatalities and two cases, & more 'possibles' in a nursing care facility in Kirkland WA.

Economic impact of the coronavirus - In 2018 23.53MM cars were sold in China, down 3% YoY, but nevertheless still 27.76 % of the global total; then in 2019 car sales there were declined another 8%-, in January a further 18%- & in the first 16 days of February 92%-, YoY. So, although in the past couple of years their sales volume in China had declined from their earlier 4+MM units each, this cannot help but have measurable bottom line implications for both Volkswagen & GM. The Montreal-based IATA (International Air Traffic Association) forecast on February 20th that the coronavirus outbreak will cost the world's airlines US\$29.3BN in lost revenues this year, incl. US\$27.8BN just for those in the Asia Pacific region (*which may prove a vast understatement, as American Airlines, for example, just announced that it is suspending all its flights to Milan "due to a reduction in demand"*) which means that earlier forecast of 4.8% YoY growth in global airline revenues this year will turn into an 8.2% decline from what it had been expected to be (*and as Charlie Munger recently observed "the revenue goes away and the expenses stay"*). The IMF that in January cut its October forecast of 2020 global GDP growth by 0.1% to 3.3% (& that for 2021 by 0.2% to 3.4%), has now shaded them down further. And while the St. Louis Fed reported last November 21st that the consensus of professional forecasters was that real US GDP growth in 2020 "would go below 2%, although it could rise above 2% if the economic headwinds from trade disputes and slowing global economic growth were to diminish", this now looks like a pipedream, as Boeing suppliers start feeling the pinch of the 737 Max production suspension (its biggest supplier, *Wichita KA-based Spirit Aerospace announced in January already that it would start "furloughing" 2,800 of its 18,000-strong work force*), the EIA (US Energy Information Agency) is forecasting significantly lower 2020 YoY shale oil & gas production growth rates & John Deere is expecting a 5% decline in this year's North American sales-, & only flat sales offshore (compared to their plus or minus 10% compound annual growth rates in the four years ended December 31st, 2019, despite the fact that its sales to China shrank by half between 2017 & 2019). And to top it all off, London-based IHS Markit's reported that its US Composite Output Index for February had come in at a post 2013 low 49.6 (down from 53.3 MoM) ⁴, and on Monday March 2nd OECD Chief Economist Laurence Boone (aged 50, she has a Ph.D. from LSE) forecast that the global economy this year may only grow at 1 ½%, half that forecast last November, in part due to the fact that "China accounts for 17% of global GDP, 11% of world trade, 9% of global tourism and as much as 40% of the demand for some commodities".

Gold price - From its January 3, 2000 price of US\$280 it skyrocketed to US\$1,820 on August 2011, only to crater to US\$1,072 by July 7th, 2015. Then, after 'dogging around for 4½ years between that price & US\$ 1,517 on December 30th, 2019, on February 21st it hit US\$1,643, up from US\$1,556 (i.e. 5.6%) in just 18 days. But while this *coronavirus-driven* "flight to safety" had

⁴ This financial information services firm was created when London-based IHS took over Englewood CO-based Markit that had grown nearly tenfold in a little less than a decade.

“gold bulls” talking about it going to US\$2,000, one week later (i.e. by the close on February 28th) it had given back virtually all of the last week’s gains.

IATA’s 2019 Aviation Benefits Report - The plethora of information provided by it includes : in 2018 the world’s airlines carried 4.3BN travelers, up 6.4% YoY (& up 83% over a decade) and the industry accounted, directly & indirectly, for 65.5MM jobs & in 2016 for US\$2.7TR of the global GDP (i.e 3.3%, vs. agriculture’s 3.7%) - so any downturn in airline travel could have a significant impact on global GDP growth (And elsewhere it was reported that in the four year period 2007-2010, i.e. during the years bracketing the Great Recession, the 8.4% growth in the number of airline travelers had trailed the 16% of global GDP.

Israeli election – Today in Israel is the date of its third election in 11 months, the one that nobody really wanted but that still could have far-reaching geopolitical consequences. While a polling ‘blackout’ has been in place since last Friday, March 28th, prior to that they had been remarkably consistent for months in predicting an outcome almost identical to those of the April & September 2019 elections, with Netanyahu’s right wing Likud Party & the opposition more centrist Blue and White coalition alternating in having the lead by one or two of the 120 Knesset seats but never enough to be able to form a government without the eight or so seats of Avigdor Lieberman’s Yisrael Beiteinu Party (and it will be interesting to see if he will compromise on his “government of national unity” demand that after the last two elections foundered on Netanyahu’s ego & his need to control the government so as to avoid the criminal charged outstanding against him and, to a lesser extent, on Gantz’s demand for change. If I were a betting man, I would back Lieberman, with the only question being at what price & for how long? As last report the voter turnout was a 20-year high and Netanyahu was crowing victory on the basis of three TV channels’ early exit poll results despite the fact that they had subsequently shaded down their exit poll results (suggesting that there may have been a last minute rush of anti-Netanyahu voters) to leave him one or two seats short of a dead heat. It will be interesting to see what will happen on March 17th, his scheduled court date on three different corruption charges.

Latest example of the White House muzzling the government’s own experts? – Anthony Fauci (age 79) is a medical doctor who has for 52 years been on the staff of NIAID (National Institute of Allergy and Infectious Diseases) or its predecessors, the last 36 as its Director (and such, guided the country through the AIDS & Ebola outbreaks and is now leading its response to the coronavirus one) & over the years has been awarded 30 Honorary Doctorates by US & foreign universities. But according to the NYT, after the President told the country that the US was “rapidly developing a vaccine ... and will essentially have a flu shot for this (i.e. the coronavirus) in a fairly quick manner” & Fauci went on record as saying “we’re between a year and a year-and-a-half away from a vaccine”, he was instructed “not to say anything without clearance.” – *But this is not a unique case; for in the last nearly 3 ½ years similar instructions have been issued to scientists in senior positions in the government service, in, among others, the Department of Health and Human Services, National Weather Service, US Geological Survey, NOAA (National Oceanic & Atmospheric Administration), EPA (Environmental Protection Agency), Department of Agriculture, CDC (Centers for Disease Control and Prevention), Department of the Interior & NPS (National Pension Scheme) when they expressed professional judgments that contradicted those of the nation’s know-it-all Prevaricator-in-Chief.*

Official stance on China’s coronavirus/COVID - 19 situation - The 25 member Politburo of the CCP (Chinese Communist Party), second in political power only to its own 7 member Standing Committee (that includes President Xi Jinping & Prime Minister Li Keqiang), met on Friday February 21st for the first time since the outbreak of the coronavirus epidemic nearly two months ago (because President Xi’s mind had been too out of sorts to ‘socialize’?) With the most important

agenda item being the trade-off between epidemic control & economic growth (*with it now abundantly clear that the former is raising havoc with the latter*), President Xi told its members that “the spread of the outbreak has been initially contained ... (*but*) the inflection point for the development of the national epidemic has not yet arrived ... The prevention and control situations in Hubei and Wuhan are still grim and complicated”. And he stressed the need for getting the economy back on track so as to meet the targets of the 13th (2016-2020) Five Year Plan and for giving priority to “ensuring that leading companies (*i.e. the SOEs?*) and key links that have an important influence in the global supply chain restore production and maintain the stability of the global supply chain.”⁵ - *He is putting up a brave face & dreaming in technicolor; for since 2015 the GDP growth rate has consistently been below that year’s 6.9% rate on which the plan was based (and last year was just 6.0%, a post-1992 low). And the economic fallout of the coronavirus outbreak has all but ensured those targets will not be met, potentially resulting in an enormous loss of face for him (for the downside of his centralizing power in his own hands means he has lost much of the scope he once had to ‘throw sacrificial lambs under the bus’ for his failings (although he certainly seems to have been trying to do so).*

On February 18th President Xi phoned Britain’s Prime Minister Boris Johnston and France’s President Emmanuel Macron to assure them that the coronavirus outbreak was “merely a momentary setback”, that the disease’s influence on China’s economy would be temporary, & that Beijing was “confident” about achieving its goals for social and economic development this year - *One thing I learnt long ago, & have since found correct more often than not, is that the higher the level of official denial of a rumoured event, the greater the likelihood that it’s ‘just around the corner’.* So it was interesting that on that same day his government revoked the press credentials of three WSJ reporters for writing a column, entitled “The Real Sick Man of Asia”, that was critical of Xi’s handling of the coronavirus outbreak & that at the weekly Executive Meeting of the State Council, at which the key agenda item was “Combating the Fallout from the Coronavirus “, Premier Li Keqiang told those present that “Every effort must be made to prevent mass lay-offs”, while elsewhere it was reported that, in order to reduce pressure on the SME (Small and Medium Enterprise Sector) - for which Caixin says the coronavirus outbreak is an “existential threat” - they will be eligible to have all their contributions to the old age pension-, unemployment-, & workplace safety insurance plans waived for the February-June period, that larger companies will have to pay only half their normal rates, and that all would be allowed to defer their payments to the Housing Provident Fund - *What has gotten little coverage in the media is that for Xi 2020 is a critically important year; for he has long bragged that this year China’s GDP would be double that ten years ago and, while the recent years’ slowing of China’s GDP growth rate had already made this an increasingly ‘iffy’ prospect, the coronavirus outbreak now has put the kibosh on that altogether (unless, of course, Beijing really starts ‘cooking the books’ The resultant potentially huge ‘loss of face’ for him personally, could possibly put paid to his dream of becoming ‘Emperor for Life in 2022. And my observation above about what I had learnt long ago was reinforced when the Ministry of Foreign Affairs announced that the President had on Saturday February 29th had phoned his Chilean & Cuban counterparts (both of them targets of his Latin American ambitions) to tell them that his government had acted in an “open, transparent and responsible manner” in working with WHO during the coronavirus outbreak & to tell them that China “had survived many trials and tribulations and had never been crushed” and that the effect of the coronavirus outbreak will be “short-lived”.*

⁵ This shows how much, like so many other leaders, he is out of touch with reality; for the SME sector accounts for 60% of GDP-, 70% of new patent application- & 80% of employment-, growth.

This was the week that was - The stock market had its worst week in nearly 12 years (*which was reported to have “infuriated” President Trump*), with the Dow Jones down 12+%, the S&P 500 11.5% and NASDAQ 10.5% (although late in the week the implosion rate eased). And bond prices soared as yields crashed, with that on the 2 year UST going from 1.10% to 0.88% & that on the 10 year UST from 1.30% to a record low 1.13%, while the price of gold stabilized; for after having soared from US\$1,584 on Friday February 14th to US\$1,644 one week later, it settled back to US\$1,586 by the close on February 28th (*which, however, was still up 20% YoY*). Among the reasons given for this were share prices’ lofty valuations, the growing risk of *coronavirus-driven* supply chain interruptions, the wave of corporate profit warnings ⁷ and uncertainty about the outcome of this fall’s presidential elections.

University of Chicago Booth School of Business Initiative on Global Markets’ Annual U.S. Monetary Policy Forum - Each year it brings together a large number of academics, market economists & policy makers & this year took place on February 21st in New York. The first item on this year’s the agenda was a report by three academics & two bankers entitled Monetary Policy for the Next Recession that was to be critiqued by two senior Fed officials, Gov. Lael Brainard & Atlanta Fed President Raphael Bostic (*the latter of whom this year is a non-voting member of the FOMC and recently went on record as saying that so far he hadn’t seen “a big coronavirus impact on the US economy”*) - *And while pressure on the Fed to cut rates is building & the consensus growing it will do so at least once at the next four months’ three FOMC meetings, on Friday February 28th Fed Vice-Chairman Richard Clarida, a Trump appointee, told a Washington audience that the Fed is keeping a close eye on how the coronavirus will affect the global & US-, economies (& that it likely will “have a noticeable impact on the Chinese economy ... and could spill over to the rest of the global economy” and thus is a significant threat to growth) but that inflation remains muted. And he reiterated earlier views of other Fed officials that “As long as incoming information about the economy remains broadly consistent with this outlook, the current stance of monetary policy likely will remain appropriate.” (in other words, while everybody may be ‘losing their cool’, we’re not, for we are ‘data-driven’).*

US Consumer Sentiment - According to the University of Michigan, while a slight decline from January’s 99.8 to 99.5 had been expected for February, it came in at 100.9 as (rather tellingly) the Expectations Sub-Index **rose** from 90.5 to 92.6 while the Current Conditions Sub-Index **slipped** from 114.4 to 113.8). But, according to the University’s Surveys of Consumers’ Chief Economist Richard Curtin, only 7% of those interviewed mentioned the coronavirus & 10% the upcoming presidential election, while all were pretty sanguine about the inflation outlook (with their one-year expectation unchanged at 2.5% & their five-year one down from 2.5% to 2.3%) - *This suggests that American consumers are living in the Trump-inspired dream world since the Index’s reading has only been over 100 five times since 2004 (all in the last three years). And this conceivably could prompt a major anti-Trump backlash over the summer & into the fall ahead of the November 2nd elections, if the scales were to drop from voters’ eyes’ before then.*

⁷ AB InBev reported that, due to the coronavirus, it had “lost” US\$170MM in profit in the first two month of this year, Microsoft joined Apple Hewlett Packard, PayPal & Mastercard in saying that they expected to miss their *previous* guidance for the First Quarter, one market strategist commented “The risk to the global consumer is the real problem. Starbucks ... and Apple ... can reopen their stores in China *all they want* but few people will go into them.” & one company in the travel & tourism sector now expects 5-10% lower bookings in the First Quarter (*and may be proven to have been wildly optimistic at that*). And anecdotal evidence from Calgary is that traffic at Chinese restaurants there is down as much as 70% (with question now being whether it has just moved elsewhere, to non-Chinese outlets, or whether represents a trend to less ‘discretionary spending’).

WOW! - A leaked document revealed that Twitter is contemplating the introduction of a new “misinformation policy” on March 5th that will have fact checkers examine all tweets by politicians & other public figures for lies and/or misinformation in order to attach, before they are sent on to recipients, red or orange labels to those that told lies or sought to pass on misinformation.

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THE END OF GLOBALIZATION? (IMD, Stéphane J.G. Girod)

- Globalization is a process whereby the world converges economically (due to greater interdependence that moves capital, goods & services, and people across borders). It results in a systematic interconnectedness as a result of which what happens in one country influences all others in the system. Examining *recent* aggregate world data, it *now* seems, at best, to be on Pause. For FDI has yet to recover to pre-financial crisis levels and, while world trade is still growing, it’s doing so at a much slower rate than prior to 2008 as the rise of protectionist policies around the globe have harmed growth & *the resultant* slower growth has fueled *public* disenchantment among citizens around the world. But as the appetite for more globalization seems to be unraveling in the West due to a perception that it has impoverished the middle classes whose jobs & incomes have been pushed downward by both migrants willing to work for less & multinationals outsourcing many activities to lower cost countries, in emerging markets & China it is growing *because it has been instrumental in moving many poor people into the middle classes*.
- But while globalization may be ‘on Pause’, it could soon start declining due to :
 - the refugee crisis in Europe combined with Islamist fears (*that may soon become more high profile since President Erdogan has threatened to reopen the sluice gates for the millions of immigrants still in Turkey*);
 - a debt overhang that may cripple the Chinese economy;
 - the *adverse* effect of persistent low interest rates;
 - the impact of robotics and artificial intelligence; and
 - unplanned climate change disasters (*like the coronavirus?*)
- Slower growth, economic imbalances, the rise of China & rising income imbalances, if not handled properly at the policy levels, could lead to Western voters electing governments with radically protectionist agendas that will cause the past decades’ globalization process to go into reverse (in a process not unlike that prior to WW I when it took until 1931 for the system to implode); so taking that as an example & using 2008 as the inflection point, it may still well be a while yet before the present system totally unravels.

*This article was published in November, 2016. And the coronavirus outbreak now likely will greatly speed up ‘deglobalization’ (that in any case soon could, & should, have started to be demonized as “environmentally unfriendly”), with serious negative implications for the Chinese economy & that of the “emerging economy” country complex - IMD (International Institute for Management Development) is a free-standing, MBA-offering, ‘open program’, Lausanne Switzerland-based, 9,000 student/100,000 alumni business education school that, according to the Financial Times ranks first among the open program-, & second among university-based **and** open program-, business education schools in the world and has the people such as the former CEO’s of Maersk, McKinsey, Nestle, Royal Dutch Shell, Royal Philips Electronics, T-Mobile USA & UBS, as well as the current Dutch Prime Minister & one of the Dutch Royal family’s princes among its alumni. And Girod has an MSc from the Toulouse Business School, an MBA from the Helsinki School of*

Economics & a D. Phil. from Oxford University's Saïd Business School, and now is a Professor of Strategic and Organizational Innovation at IMD.

GOLDMAN DROPS US FIRST QUARTER GDP GROWTH FORECAST TO JUST OVER 1% ON THE CORONAVIRUS (CNBC, Yun Li)

- It did so from 1.4% to 1.2% annualized, with Chief Economist Jan Hatzius commenting "The risks are clearly on the downside until the *coronavirus* threat is contained", & adding will quickly "An increasing amount of companies [are] suggesting potential production cuts, should supply chain disruptions persist into the Second Quarter or later.

This is a 'sort of' good-, & bad-, news story', the former since Goldman's change from 1.4% to 1.2% is not as drastic as the headline suggests & since Hatzius mentions the possibility of a Second Quarter "catch-up" of up to an annualized 2.7% rate, while the bad news is his comment that "The risks are clearly on the downside ..." & the fact that a low First Quarter rate will have a disproportionate effect on the growth rate for the entire year. And if the coronavirus were to drag into summer, it may well start affecting the US Presidential election outcome since it would raise questions about Trump's claims to fame, incl. the one in his State of the Union Address' that we have "Perhaps the greatest economy we've had in the history of our country." (which is utter nonsense, since his average first 3-year annual GDP growth rate was 2.45%, triple the 0.865% average during Obama's first three years (when the economy was in-, or just beginning to recover from-, the Great Recession) & better than Bush 43's 1.87%, but below Clinton's 3.15 & not even half Carter's 5.18%).

WARREN PROPOSES \$400 BILLION STIMULUS PLAN TO FIGHT ECONOMIC DAMAGE FROM CORONAVIRUS (The Hill, Sylvan Lane)

- On Monday March 2nd she said that Congress should *forthwith* pass a US\$400BN stimulus bill to counteract the economic damage being done by the coronavirus outbreak (*an idea pooh-pooed by White House Economic Adviser Larry Kudlow who contends that the US economy will quickly rebound from any coronavirus slowdown*).

Both display economic sophistry. For the supply chain problem may have a far greater, & more prolonged, impact than Kudlow contends & stimulus unless very, very carefully targeted (which is most unlikely?), is at best useless in dealing with supply problems & worst liable to engender inflationary pressure.

KEY REPUBLICAN SENATORS UNDECIDED ON TRUMP NOMINEE JUDY SHELTON AFTER CONTENTIOUS HEARING (CNN Politics, Donna Borak & Ted Barrett)

- Last summer President Trump nominated Judy Shelton, a former Fellow at Stanford's Hoover Institution & a 2016 Trump campaign adviser, & Christopher Weller, the St. Louis Fed's Executive Vice President & Director of Research, to fill the current two vacancies on the Fed Board after his earlier picks, Stephen Moore & Herman Cain, withdrew their names *before their nominations could be rejected by the Senate*.

While Weller's confirmation is all but a foregone conclusion, Shelton's is anything but. Not so much because she has long been a severe critic of the Fed, accusing it, among others, of monetizing the national debt & thereby accommodating an accumulation of national debt that would impair "our ability to remain a self-determining nation", but because she's a 'fruit cake' who contends that the US should "return to the gold standard". On February 26th her situation position

may have improved when Sen. Richard J. Toomey (R-PA) announced that, after talking to her he had changed his mind & would support her. Still to get her nomination out of the 25 (13 GOP & 12 Democrat) member Senate Banking Committee, she still would have to get majority support, i.e. to get both Sen. Richard C. Shelby (R-AL) & Sen. John N. Kennedy (R-LA) to support her candidacy (both of whom remain “undecided”) - One must wonder why Trump keeps nominating such losers, since, as a result the Fed Board has never had a full complement of seven Governors since he became President.

BERNIE SANDESRSSCANDINAVIAN FANTASY (WP, Fareed Zalaria)

- He says his proposals are not radical, using the Nordic countries as an example, & says “billionaires should not exist” (*envy for only being a millionaire after having been at the public trough for all but 2 of the last 39 years?*). But he is at least twenty years behind the times. For in the latter 1900s the Nordic countries’ politicians got the free market message. So, while today these countries have a social safety net that Americans can only envy, they no longer have minimum wages. Both Norway and Sweden have more billionaires per capita than the US and, what’s more, they can keep their wealth in the family; for while in the US the inheritance tax rate is 40%, it is zero in Sweden & Norway, and 15% in Denmark. And while taxes there are very high, they are paid to a far lesser extent than in the US by the rich; thus in Denmark the top 55.9% income tax rate is paid by those with an income of US\$65,000, i.e. 1.3x the national average, while in the US the top 43.7% rate is paid by those with an income of about US\$500,000, i.e. 9.3x the national average. As a result a 2008 OECD study reported, among others, that while in the US “the top 10 percent” accounted for 45% of all income taxes paid, the comparable numbers for Denmark & Norway were 26% & 27% respectively.

And what perhaps most telling is that at last report the US government debt-to-GDP ratio was 106.9%, nearly twice the 55% at the turn of the century & well on its way to surpass the 1946 119% ratio, after five years of expensive war?

CORONAVIRUS : CHINA’S FACTORY ACTIVITY PLUNGES TO AN ALL-TIME LOW, WORSE THAN IN THE GLOBAL CRISIS, FEBRUARY DATA SHOW (SCMP, Andrew Mullen & Orange Wang)

- In February China’s official PMI (Purchasing Managers’ Index) dropped from 50.0 to 35.7 MoM, the non-manufacturing PMI, a gauge of the sentiment in the services’ & construction sectors, from 54.1 to 29.6 MoM (well below the Nov. 2011 49.7 low) & the employment sub-index from 47.5 to 31.8 MoM (indicating that the employment level in manufacturing industries had decreased) as companies, due to travel restrictions, are having difficulties finding workers (& are reported to experience order cancellations & delayed deliveries). This means that the Chinese economy’s 1Q growth rate will be significantly below the Fourth Quarter’s 30-year low 6%. Small businesses appear hardest hit, with the Ministry of Industry and Information Technology reporting on February 25th that only 30% of them had reopened ⁸. According to Hong Hao, Head of Research & Chief Strategist of Bocom International Holdings Company Limited [a Hong Kong-based financial services subsidiary of the Shanghai based Bank of Communications (China’s fifth largest)], “China is running

⁸ This is very important since China’s SME (Small & Medium Enterprise) sector is deemed the economy’s most efficient & innovative, and estimated to account for 60% of GDP, 70% of new patent applications & 80% of jobs.

at 20% of capacity ... *but a March improvement is likely*" & to Liang Zhonghua, Chief Macro Analyst at the Jinan, Shandong Province-located Research Institute of Zhongtai Securities, "The Chinese economy had already faced great downward pressure, with the speed of the decline only hastened by the corona virus."

It has since been announced that "qualified" SME firms with debt payments due between January 25th & June 30th can apply to delay making them, with the banks instructed not to classify the loans involved as non-performing "until later". And according to one typically well-informed China source a survey of 573 SME firms in Hebei Province had found that 97.2% (i.e. 557) were only "partially", or not at all, operating & that 57.6% (i.e. 330) had said they would not survive a three months' shutdown, and that almost as many were pessimistic about their post-crisis outlook

THE CORONAVIRUS/COVID-19 OUTBREAK MAY HAVE LEAKED FROM A CHINESE VIROLOGY LAB (New York Post, Steven W. Mosher)

- On February 20th President Xi noted the urgent need to control the coronavirus & to set up a system to prevent similar experiences in the future, and to create a national system to control biosecurity risks so as to protect people's health, since "lab safety is a national security issue". And the very next day the Ministry of Science and Technology released a new directive entitled "Instructions in Strengthening Biosecurity Management in Microbiology Laboratories that handle advanced Viruses like the novel Coronavirus".
- But the only Level 4 Microbiology Laboratory in China is the National Biosafety Laboratory at the Wuhan Institute Virology in the city of Wuhan, the epicentre of the outbreak [to which, in late February, Maj-Gen Chen Wei, the PLA's top biological warfare expert, who, according to the PLA Daily, has since 2003 been researching coronaviruses like Sars (as well as Ebola & anthrax), was sent to help control the outbreak.
- *And, if the virus were to have escaped from the Institute, this would not be a China first; for the SARS virus has twice before escaped, due to a lack of proper safety procedures, from a Beijing laboratory where it had been used in experiments. Moreover, there have long been rumours that, to supplement their incomes, laboratory staff, rather than killing & cremating animals no longer needed in experiments as they are supposed to, have been selling them to street vendors for resale in the live animal markets (purportedly one former Beijing lab worker is already in jail for having made more than the equivalent of one million dollars doing so).*

It may be relevant in this context that the outbreak was first attributed by official sources to a local open air 'wild animal market' near the Wuhan Microbiology Lab - Now aged 72, Mosher joined the US Navy at age 20, in 1971 got a BS in Biological Oceanography from the University of Washington & was commissioned an ensign and the following year an MS in the same subject, after which he served in the Navy until leaving in 1976 with the rank of lieutenant. He then enrolled in the Chinese language program of the Chinese University of Hongkong (that he completed in a year, as a result of which he is fluent in both Mandarin & Cantonese). After that he got a three-year National Science Fellowship & entered the doctoral anthropology program at Stanford, getting an MA in Asian Studies in 1977 & another in Anthropology in 1978, and did field work in rural Taiwan. Then, after a request by President Carter to Deng Xiaping himself, he was granted access to China in 1979 to do anthropological research, spending most of his time in the remote, poor & seldom visited Guizhou Province (1,077 mi/1,735 km South of Beijing), (974 mi/1568 km East of Lhasa, Tibet) & (544 mi/892 km West of Hong Kong) but in 1981 was denied re-entry on the grounds he had "broken the law and acted unethically" (but purportedly because he had reported extensively & critically on the widespread one child policy-driven practice of forced abortions). A couple years later he was expelled from the Stanford Ph.D. program, ostensibly due

to “a lack of candor”, but as he & others claim, due to pressure from Beijing - While some question his academic credentials, those who do, appear to be even loonier than they accuse him of being, and to be less well- informed about-, & unlikely to have better, if any, connections in-, China than Mosher (and with little, if any, hands-on experience there). Moreover, since some of the facts he trots out should be readily verifiable by experts in the field, he may have more credibility than his critics would like to have people believe.

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Truth is often stranger than fiction - An 87 year-old male resident of the Portstewart Senior Centre in Caldwell ID for some time had disagreements with three of its female residents. On February 20th, when they were having coffee in the lounge, he went upstairs to his room, came back down with a 9 mm handgun & shot all three of them, one fatally, and then, for good measure, shot & wounded the rookie policeman answering the call, after which he went back up to his room & committed suicide - *Not a great way to make one’s exit!*