GETAnalysis.ca
RESEARCH

November 27, 2016

The Shaky Steady, Unsteady State of 2016

WRITTEN BY: ASHOK DHILLON

Ashok Dhillon has 40 years of front-line business experience in Canada and International markets.

Mr. Dhillon's experience includes start-ups, venture capital, seed funding, and heading companies in construction and international power development. His extensive experience gives him in-depth knowledge and intuitive insights into macro and micro, national and international, geo-political and economic realities and trends. He has been invited to speak on international business at various forums, including as an expert witness for the Standing Senate Committee, Government of Canada, on "The Rise of Russia, China and India".

The Global economy managed to survive 2016 without a devastating crash or blowout, so far, and to our surprise, considering the flocks of black swans that swirled constantly this year alone. That doesn't mean it can't mess up yet, we still have a month to go in the year, and we have the "Trump Effect" to deal with now which is *uncertainty* personified going forward. The financial markets, particularly in the United States, seemed to give Mr. Trump the benefit of the doubt and soared to new heights. But, high flying markets are small comfort to us as markets are notoriously fickle and unreliable gauges of economic reality, being so prone to manipulation from major players (*the biggest players of last decade having been the Federal Reserve of the US, and the other major Central Banks, but then there are the other usual suspects, Banks, Investment Banks, Funds, large Traders etc.*), and the pure emotional sentiment of the whole lot, and the public. Regardless, the reality is, it's almost the end of 2016 and the Global Economy is still ticking, in the US a bit more steadily, globally a bit unsteadily.

From the premiere historic economic milestone in our times, the 2008 Financial Crisis, when the Global Economic Clock was reset, and we started again from a deep bottom, we all got here (*2016*) by the unabashed and unprecedented printing of money by Central Banks and their unembarrassed creation of unimaginable wealth for the wealthiest of the World, while waiting for un-arriving anemic trickle down to the rest.

This un-recovery-years long exercise brought us to this point but has exacted an unusually heavy toll, leaving us a Global Economy that is entirely dependent on perpetual coddling from the Central Banks to keep afloat

The Shaky Steady, Unsteady State of 2016

WRITTEN BY: ASHOK DHILLON

through relentless stimulus, while fostering and building in dangerous imbalances that are an ever present danger to financial and economic stability, even today, while inexorably widening the wealth gap between the rich (*10%*) and poor (*the rest - comparatively speaking*).

The World over, the long suffering masses that didn't get to participate in the stupefying largess of the Central Banks to the top 10% these past years, are no longer passive or silent.

They helplessly watched an endless gush of practically free money flow to the top, throughout these 'recovery years', as they struggled to survive or just maintain their standards, and stewed, and now they have rebelled, and given the chance, have voted in the more radical elements from the political spectrum, mostly those on the nationalistic farther Right of Center.

That fact, most dramatically illustrated first by the unexpected Brexit win in the United Kingdom, and then the shocking election of Donald J. Trump in the United States, and now pushing the general shift towards the 'Right' in the coming elections in France and Austria, are a direct result of adoption of the 'trickle down' economic policy adopted by the World's major Central Banks, that have left the masses behind for the past 8-odd years of unprecedented 'stimulus', that stimulated greatly the already wealthy, and barely, the vast majority of the worker class.

About 8 years ago the Global Economy was in free fall. Financial markets, economies, jobs, security and stability were incinerated by the biggest Financial Crisis since the 1929 Crash, and the subsequent Economic Depression that followed it.

During the early months of the full blown crisis in 2009, Barack Hussein Obama accomplished the near impossible by being elected as the first African-American President of the United States. This mind-blowing, history-making, event couldn't have taken place at a more unfortunate time, economically speaking, as the bottom had just fallen out of the American Economy, and Barack Hussein Obama, a Social Activist, Harvard Law Professor, was suddenly at the helm of the World's largest, most powerful Economy, that had plunged off the cliff edge even as he took hold of the wheel, with no experience.

The Shaky Steady, Unsteady State of 2016

WRITTEN BY: ASHOK DHILLON

To make matters worse for the first 'Black' American President, the opposition Party, the Republicans, vowed right up front, to oppose this 'Black' upstart by making sure that nothing he tried to accomplish in his term in Office would succeed because they meant to sabotage all his efforts from day one, which they effectively did, including bringing all government functioning to a halt by withholding the money to run it, regardless of the consequences to the Country, or governance of it. To further complicate matters for the neophyte President, his primary economic advisors were mostly Republicans and ex-Wall Street executives, some of the key ones being from Citi Group and Goldman Sachs.

Not surprisingly, in the depths of the crisis they advised the new President to unleash the biggest bailout packages, in economic history, for the failing American financial institutions, which were promptly redistributed as bonuses to the highest levels of management without ne'er a thought towards the ill deservedness of such behavior, or the sense of responsibility or honesty of being executives who were to a great degree guilty of creating the conditions for the crisis in the first place.

Obama survived this initial sellout of the public that elected him to bring real change from Wall Street money controlling Washington political power, but lost majorities in the Congress and Senate as public penalty.

Despite the setback, and now with both Houses as hostiles, and through an inherently flawed economic recovery plan led by the Federal Reserve, Obama Administration nevertheless, managed to pull the US, and by example, the Global Economy out of its fatal nose dive, into a dangerously low, endlessly skim-the-tree-tops flight that has lasted nigh 8 years, accumulating Tens-of-Trillions in debt worldwide, while creating an ever widening chasm between the rich and the 'working others'.

In spite of these inauspicious beginnings, and the glaringly inherent flaws in monetary policies, towards the end of 2016 the US economy is remarkably stable considering the financial and political abuse it has consistently suffered, and the depth of damage inflicted on it by the 2008 Crisis. The Economy has averaged 2.9% GDP growth rate this year on an annual basis, has a commendably low rate of unemployment (4.9%), and low rate of inflation (1.6%), with the resultant ultra low interest rates (0.5%) made possible due to the continuing ultra-tame inflation rate.

Which is not to say that the American Economy is healthy or even inherently stable, it isn't, but considering the devastated state of it in early 2009 when Obama grabbed the reins and got hijacked by Wall Street insiders while doing it, and was tripped by the Republicans at every step of his two terms, it's still come a long way.

Following the example of the Federal Reserve in bailing out the US economy, and the extreme- nursing of it to some semblance of functional stability, if not to real recovery, the other major Central Banks of the World

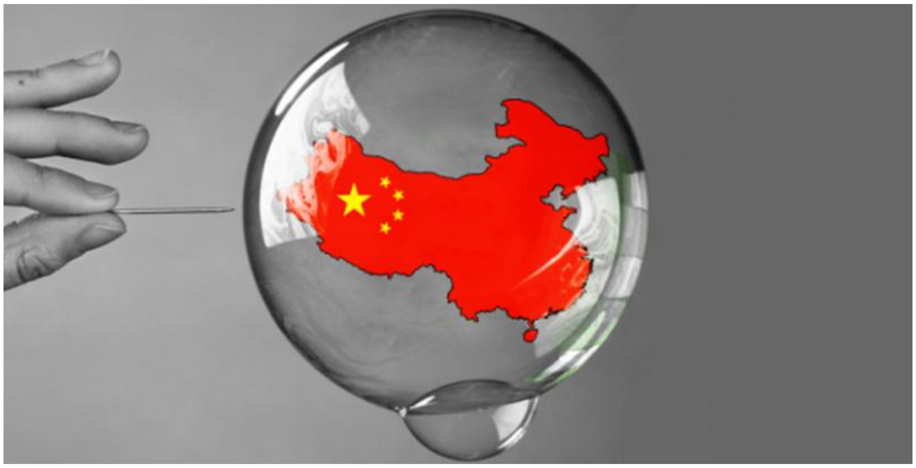
The Shaky Steady, Unsteady State of 2016

WRITTEN BY: ASHOK DHILLON

followed suit, more or less, and pumped Trillions of dollars worth of 'stimulus' into their own economies, eventually stopping the free falls from 2008, and preventing complete and irrevocable melt downs.

Therefore, the result at the end of 2016? The Global Economy is weak, inherently shaky, structurally unsound, but steady in its semi-permanent frail state of being, and considering the alternative that could or should have happened these past years since 2008, that's saying a lot.

Yet, all is not well globally.



Currently, China is still one of the biggest risks to the Global Economy, as it tries to transition smoothly to an internal consumption engine rather than an old model muscle-car version of an export powerhouse. China's primary problem is the rest of the World, in particular the not-so-rich-anymore West that dropped its consumption levels dramatically after 2008, stopped buying goods from China in the volumes that it used to, forcing China into a significant overcapacity problem from which it cannot find its way out, as there really isn't any.

China is being forced to support redundant overcapacity and massive inefficiencies in its State Owned Enterprises (*SOEs*) just to keep illusions of growth going, and as many people working as possible, and thereby managing to maintain its all important social order. But those conditions of heavily subsidized illusions are forcing China into dark and dangerous places that are fraught with increasing financial, economic and potential socio/political risks.

To maintain its illusion of high growth rate momentum, China over-stimulated its real estate markets after the global financial crisis, the markets overheated, risking a blowout, forcing the Government to back off and cool the markets down. Then it turned its mighty power-to-promote, to the stock markets, and soon they turned red hot and then had a massive meltdown, in May of 2015, leaving the Government red faced and scrambling rather comically to stop the daily carnage by enacting hereto unknown, decidedly non-free-market rules that actually stopped the buying and selling of stocks in

The Shaky Steady, Unsteady State of 2016

WRITTEN BY: ASHOK DHILLON

hard pressed tanking listed companies. The spectacle was stock market management, definitively and till now exclusively, China style.

Now the Chinese Government is back to the old tried true methods of boosting growth rates through supporting the real estate market, albeit carefully, continuing to invest in infrastructure building, keep redundancies rolling through subsidies, and boosting internal consumption through subsidized jobs, work create programs, and ever loosening credit. The Chinese Government is being forced to keep the majority of the old economic model (*exports and investment spending*) going while the new model (*internal consumption*) is still marginally effective.

It's also fighting to unload massive amounts inventories of steel and cement, among other goods, on to any countries it can, through promises of infrastructure investment, and through loud objections of local industries of recipient countries, and WTO battles, through sheer necessity and desperation. And, it's investing some of its still impressive cash hoard in other countries, trying to diversify and expand its industrial base into foreign markets, Japan-style.

All these measures are still not quite enough, so the Government has been actively undertaking substantial stimulus and pushed liquidity into its financial and banking sector to keep credit and spending flowing, and thereby keep everything afloat internally. By doing so, China is walking a thin red line between excess stimulus and dangerously high debt, and the possibly high priced economic and social stability it must have.

Any major external shock (*like Trump carrying through with his trade and currency threats against China* [unlikely, in full]) could easily start to unravel China's economic miracle. That is why the recent disturbances of Brexit, the election of Trump in the United States, and the possible nationalistic, to the Right, changes in Europe are of greater concern to China, more so than perhaps to any other country at this time.

The Shaky Steady, Unsteady State of 2016

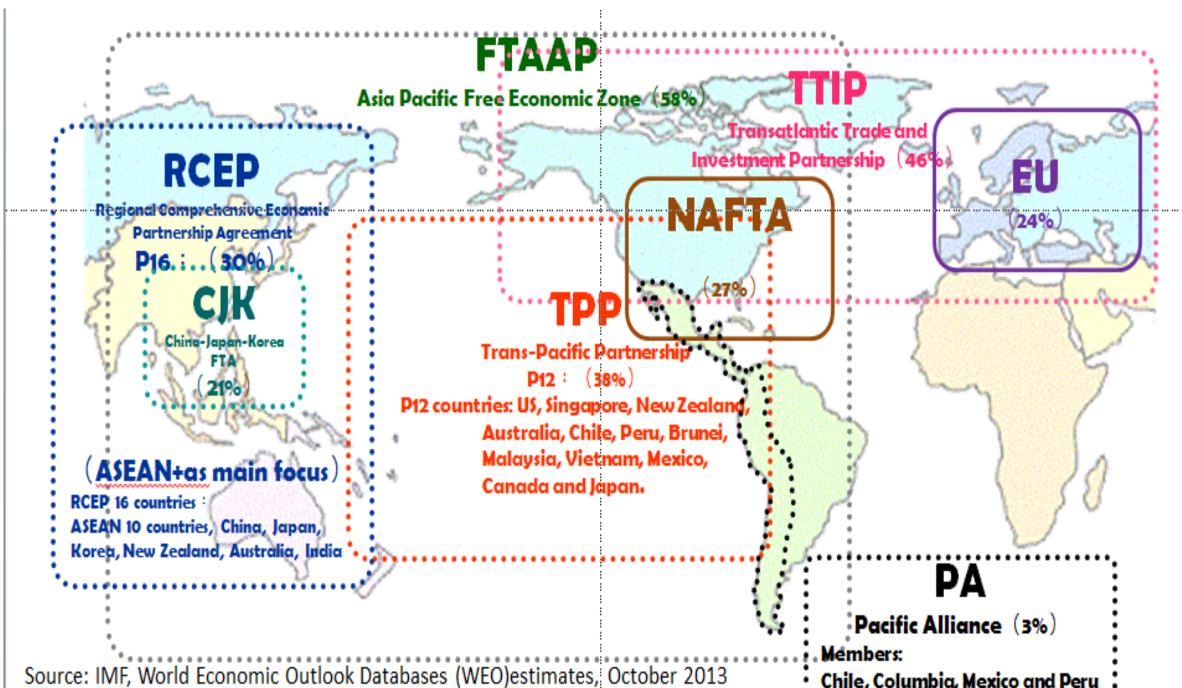
WRITTEN BY: ASHOK DHILLON

It is a bit useless to quote China economic statistics, as they are exactly what the Government deems them to be at any given time, and therefore inaccurate, but latest numbers of GDP growth rate is given as 6.7%. That number neither reflects the real growth number (*probably a lot lower*), nor does it insulate China from a potential economic meltdown if its carefully orchestrated multi-plates-in-air balancing act is in any way disrupted by major internal or external factors, and that is why China remains an economic threat to a fragile unsteady World.

Europe is managing to hold steady its positive growth trajectory at 0.3% over the last quarter, for an estimated annualized GDP growth rate of 1.6%, because of the ECB's (*European Central Bank*) continuing exceptional supportive stance with its Bond buying program, and a pickup in internal demand in most Euro countries, negating weak external demand. But Brexit and Trump uncertainty weighs on the whole. And for Europe, emerging markets, especially China, are still a major negative that has impacted their exports, in particular the export powerhouse of Europe, Germany.

While a number of the smaller developing economies have been posting relatively strong economic growth numbers, and India as a relatively major economy is still holding its position as the fastest growing, yet all these economies don't have the size, collectively, to compensate for the slower growth of the developed economies, or the previously rampaging economic juggernaut China.

And now, with Donald Trump and his band of radicals ready to shake things up from 'steady as she goes' to 'let's bust things up' - Trade Agreements,



Source: IMF, World Economic Outlook Databases (WEO)estimates, October 2013
Note: figures in brackets for proportion of FTA of world GDP

Figure 1: State of Global Economic Integration

slap on high protective tariffs, to, lets mess with the Global Allies and the Security Agreements, according to the rhetoric so far anyway, if carried through, they will plunge the global economy into a deep and troubling recession at best, and a prolonged depression at worst. Even the fragile state of steadiness would evaporate and trade/currency wars and real political acrimony would dominate.

The good news, so far: Trump has proven to be a man ***not*** of his word – and thus it may be likely that he and his team's bark may turn out to be a lot worse than their bite, and the Global Economies may continue to limp along gently administered by the ever caring, ever present Central Banks, and their endless supply of nursing and mildly nurturing 'stimulus' salve.

"DON'T WORRY, WE'RE STILL GOING UP..."