Chinese Economic Growth: Commodities to Go Up Middle Class

By The Mogambo Guru

07/16/10 Tampa, Florida – Lately, I have been hinting to my boss that I need a raise to do my job, and she has been hinting that she needs an employee to competently do my job, so you can see how we are temporarily at an impasse in negotiations.

Not so in China, however! The Economist magazine notes that in China, “Wages have been rising at 10-15% annually, but recently workers have begun to demand even heftier increases.”

Well, I am already astonished at this increase in incomes, and to impress you with my facility with the Rule of 72, I calculate with simple division that a 10% increase in wages will double wages in 7.2 years, which you gotta agree is a lot of extra spending power, unless inflation in prices eats it all away, which, unfortunately, it probably will.

And this is compounded by the Chinese economy itself growing by at least 10% a year, too, meaning that the Chinese economy will double in size in that selfsame 7.2 years! Wow!

An economy that is twice as big, and wages that doubled? My Inner Mogambo Economist (IME) immediately sees that this means a lot more consumption!

And turning that interesting fact to our advantage, so that we can hopefully make a lot of money without working, let me ask an instructive question; “Do you honestly think that commodities will go down in price when there is such growing demand, even when you can see by the look on my face and the tone of my voice that I am going to laugh at you and heap Rude Mogambo Scorn (RMS) on your stupid head if you say yes?”

And the boom may be bigger and sooner than that, as we read on Bloomberg.com that “At least nine Chinese provinces and cities raised minimum wages by as much as a third after Premier Wen Jiabao called for measures to head off growing worker unrest in the world’s third-largest economy.”

And it gets more delicious when Gary Gibson from *Whiskey & Gunpowder* interviewed Chris Mayer, who said that in “the next five years or so,” that China will gain “almost 400 million middle class consumers.”

The Really, Really Important Thing (RRIT) about this particular statistic is that 400 million new middle class Chinese people is more people than the entire population of the United States!

Perhaps now you are beginning to understand why the 21st century is going to be about the Chinese and what the Chinese want to consume in prodigious amounts, especially when the yuan starts gaining strength to make imports cheaper.

To put it in perspective, Mr. Mayer says, "when you think about China, they're the largest incremental buyer of just about any commodity you'd care to name, so a stronger renminbi means that they have more purchasing power to buy iron ore and coal and oil and all the other things they need. That could be an extra little fire under commodity prices."

Commodities? China? It is here that I began to think of Chinese food, and the next thing I knew, I went out to get some, hoping to get a seat before 400 new middle-class Chinese consumers started getting in line ahead of me at the restaurant.

As soon as I thought about it, of course, I realized that this won't happen, says Chris, for 5 years, so since I had an extra few minutes, I whirled the Mogambo-Mobile around ("screech!") and stopped ("screech!") to buy more gold, silver and oil as both a guaranteed reaction from my wife ("screech!") and as a guaranteed play on commodities, as gold, silver and oil are a Big Bold Bet (BBB) against the government and the Federal Reserve succeeding at creating, borrowing and spending more money to "fix" the massive, bankrupting problems caused by creating, borrowing and spending too much money, a hopeless task so daunting that no other dirtbag government has ever succeeded, at least none in the last 4,500 years of dirtbag governments borrowing and spending themselves into bankruptcy while twisting their economies into huge, distorted, malignant, parasitical nightmares of government domination and funding.

In other words, "Whee! This investing stuff is easy!"

And, I am happy to report, it goes well with Chinese food, too!