

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE
THAT WAS THE WEEK THAT WAS



Monday, October 5th

Russia surpasses Saudi Arabia as the world's largest oil producer in September

MONDAY, OCTOBER 5TH

- The Institute of Supply Management's index of non-manufacturing businesses, which is comprised of service industries for almost 90% of the U.S. economy, rose to a reading of 50.9 in September versus a level of 48.4 in August
- The Confederation of British Industries chief economic advisor, Ian McCafferty, reports that "signs of a brighter outlook are appearing in the financial services sector. Future demand is still a concern for financial service, however, and further pain will continue to be felt in job losses and lower investment."
- Canada's Department of Finance announces a coupon of 0.4% for its Series 120 issue of Canada Savings Bonds. This is the lowest coupon that this writer can recall over the last 50 years and it contrasts with the highest coupon of 19.5% (in the first year) of the CSBs issued in October, 1981.
- Following a weekend meeting in Istanbul, G7 finance ministers issued a statement citing "excess volatility and disorderly movements in exchange rates could hurt a global (economic) recovery." International Monetary Fund Managing Director, Dominique Strauss-Kahn comments that G7 statements have all too often "interested nobody because there's no follow-up most of the time."
- Power producer Trans Alta Corp. buys hydro powerhouse Canadian Hydro Developers Inc. for \$1.6 billion (CAD)
- Over the weekend, Ireland's government announced that the country's electorate had overwhelmingly approved the Lisbon Treaty which intends to consolidate the power of the European Union and reorganize the way it does business. The pact would give Europe a more powerful foreign policy leader, its first full-time president and strengthen the role of the European Parliament. See also Winter Warning, April 13, 2009 – No Man Is an Island, Entire of Itself.
- CIT Group's proposed debt restructuring plan, even if successful, may not allow the company to grow its way out of its problems. The aim of the debt exchange is to have investors holding \$31 billion (U.S.) of CIT's bonds reduce that amount to at least \$25.3 billion (U.S.) and to extend bond maturity dates. CIT's ability to raise funds on reasonable terms, a key requirement for any business lender, remains limited by low credit ratings and restrictions imposed by its regulator, the Federal Deposit Insurance Corp. Industry analysts report that unless these hurdles are removed, CIT can do little to revive its lending business.
- Michael Geoghegan, chief executive officer (CEO) of the Hong Kong & Shanghai Bank (HSBC) is so convinced that there will be a second economic downturn in the coming months that he is delaying all bank expansion plans. "We have to be very careful we don't grow the balance sheet so far before the recovery arrives, only to write it back into the impairment line later on."

- The U.K. construction industry's main trade body, the Construction Products Association, forecasts a 15% contraction in the sector's overall output for 2009 and warns that pre-2008 growth trends will not be seen again until at least 2021
- In a report on the Troubled Asset Relief Program (TARP) released by Special Inspector General Neil Barofsky, the U.S. Treasury Department is criticized for some misleading public statements made in the fall of 2008 and raises the possibility that it unfairly disbursed monies to the nation's largest banks.

TUESDAY, OCTOBER 6TH

- The Reserve Bank of Australia raises its official key interest rate from 3% to 3.5% citing the inflation rate had moved closer to its target range and increased exports to Asian countries, particularly China
- The Association of Financial Professionals (AFP) cautions that in a recent poll, only 11% of its members perceive the U.S. economy has "emerged from the recession"
- Societe Generale SA plans to raise \$7.1 billion (U.S.) in capital via a rights offering to repay government loans
- Carrying a debt load of \$4 billion (U.S.), Winnipeg-based CanWest Global Communications Corp. files for bankruptcy protection under the Companies' Creditors Arrangement Act, citing insolvency and a corporate restructuring led by CanWest's bondholders
- Statistics Canada reports that the value of Canadian building permits totaled \$5 billion (CAD) in August, up 7.2% from July. The majority of the increase results from an end to the municipal employees strike in Toronto, as well as gains registered in Alberta and British Columbia.

WEDNESDAY, OCTOBER 7TH

- New York based property research firm Reis Inc. reports that U.S. office vacancies rose to 16.5% in the 3rd. quarter, a 5-year high, versus a rate of 13.7% in the comparable period a year ago. Reis cites continuing high unemployment and business restructuring costs as causing employers to abandon office space.

- The Federal Reserve reports that U.S. banks "are slow" to take losses on commercial real estate loans that are being negatively affected by lower property values and rental payments
- Air Canada announces it has entered into a bought deal agreement with a syndicate of underwriters to raise \$300 million (CAD) for "working capital and general corporate purposes"
- Spanish banking giant Grupo Santander raises \$8 billion (U.S.) from the sale of its 16% stake in Banco Santander Brasil via an initial public offering (IPO) which will have a dual listing on stock exchanges in Sao Paulo and New York
- Alcoa Inc., the world's largest aluminum producer reports a net profit of \$77 million (U.S.) in the 3rd. quarter versus a profit of \$268 million (U.S.) in the same period a year ago, beating analyst's expectations and citing higher aluminum prices, improved demand and aggressive cost cuts
- German factory orders rose by 1.4% in August
- In a letter sent to Senate Banking Committee Chairman Christopher Dodd, Congressmen Ron Paul of Texas and Alan Grayson of Florida have requested that the Senate delay Federal Reserve Board Chairman Ben Bernanke's confirmation hearing, which has yet to be scheduled, until the central bank complies with a long list of disclosure demands. In part, their letter states "We are writing to ask you to postpone the confirmation (hearing) of Ben Bernanke until the Federal Reserve releases documentation that will allow the public and the Senate to have a full understanding of the commitments that the Federal Reserve has made on our behalf." Both Congressmen have been vocal critics of the Federal Reserve and Mr. Paul has won broad support in the House for a bill that would subject the Fed to audits by the Government Accountability Office. See also Winter Warning, September 14 /09 – Behold A Pale Horse and He Who Sat Upon Him Was Named Death and Hell Followed With Him.
- Since Detroit received \$15.2 million (U.S.) in federal dollars under the Homeless Prevention and Rapid Re-Housing Program, which targets homeless individuals and families needing temporary financial assistance, 5,000 application forms were made available to citizens today. However, 15,000 to 20,000 Detroiters, hoping to obtain applications overwhelmed the city's Cobo

Center and virtual chaos ensued. Emergency medical technicians at the scene said they had treated applicants who were trampled or injured during the rush to get inside the Center. There was also the constant din of screams from people insisting that they be let inside. Reportedly, some people were snatching applications forms from those who had already obtained them. By early morning, the supply of applications had been exhausted. Dan McNamara, President of the Detroit Firefighters Association remarked "This absolutely is representative of the struggling middle class in America. We've been betrayed by the government, realtors and those who've got. The promise has been broken."

THURSDAY, OCTOBER 8TH

- The U.S. Labor Department reports that initial claims for state unemployment benefits declined by 33,000 to 521,000 in the week ending October 3rd. from an upwardly revised 554,000. Continuing claims – those drawn by workers for more than one week in the week ending September 26th. – declined by 72,000 to 6,040,000 from a revised level of 6,112,000. As we have been emphasizing for several weeks, while this drop in continuing claims could reflect some re-entry into the work force, there also exists the strong probability that a host of claimants may have exhausted their unemployment benefits. Indeed, the Labor Department has just revealed that 400,000 claimants did exhaust their unemployment benefits in September.
- U.S. retailers J.C. Penney, Kohl's and Target report modestly higher same store sales of 1% in September
- Gold bullion trades at a new high price of \$1,060 (U.S.) per ounce
- PepsiCo posts a profit of \$1.72 billion (U.S.) for the 3rd. quarter ended September 5th. compared to a profit of \$1.58 billion (U.S.) in the same period a year ago, citing lower overhead costs and prior year hedging losses
- The Congressional Budget Office (CBO) revises its estimate of the federal government deficit for the fiscal year ended September 30 /09 to \$1.4 trillion (U.S.) from the \$1.6 trillion (U.S.) level projected in August; which amounts to 9.9% of the U.S. gross domestic product (GDP) for fiscal 2009

- The European Central Bank (ECB) leaves its benchmark lending rate unchanged at a record low 1%, citing inflationary pressures in the eurozone remain low
- The Bank of England kept its key lending rate at a record low 0.5%
- Canada Mortgage and Housing Corp. reports that Canadian housing starts declined to a seasonally adjusted 150,100 units in September from 157,300 in August, primarily due to a drop in condominium construction
- The Province of Alberta raises \$500 million (CAD) via a 5-year bond issue carrying a 2.75% coupon and priced at a slight discount to yield 2.87%; a yield spread of 31.5 basis points over comparable Government of Canada bonds
- Dell Inc. announces a plant closure resulting in 900 job layoffs
- The State of Illinois Comptroller, Dan Hynes, reports that corporate income tax receipts are down \$77 million for the July – September quarter, sales tax receipts are down by \$244 million and personal income tax receipts are down by \$251 million, increasing the State's outstanding debts to \$3 billion (U.S.). A State creditor must now wait three months to receive payment, including social service agencies, municipal governments and county programs that rely heavily on State reimbursement. See also Winter Warning, December 1 /08 – In One Hell of a State.

FRIDAY, OCTOBER 9TH

- The Commerce Department reports that the U.S. international trade deficit, the difference between exports and imports of goods and services, contracted to \$30.7 billion (U.S.) from a revised \$31.9 billion (U.S.) in July, citing a significant decline in imports of crude oil
- Statistics Canada reports that 30,600 new jobs were created in Canada during September, citing gains in construction, manufacturing and the public sector; as the unemployment rate declined to 8.4% from 8.7% in August
- The Canadian dollar appreciates to 95.93 cents (U.S.), its highest level in the last 12 months, on the job creation and unemployment reports

- At a House Financial Services Committee hearing in Washington, Federal Reserve Board Chairman Ben Bernanke stated that “Most forecasters, including the Fed, are currently looking for (economic) growth in 2010, but not growth so rapid to substantially lower the unemployment rate.” An annual economic growth rate of 3% means the unemployment rate would “still probably be above 9% by the end of 2010.”
- In a Bloomberg commentary about a recent Federal Deposit Insurance Corp. report, Jonathan Weil states “There was a stunning omission from the government’s latest list of “problem” banks which ran to 416 lenders, a 15-year high, as of June 30th. One outfit not on the list was Georgian Bank, the second largest Atlanta-based bank, which supposedly had plenty of capital. It failed last week. How many other seemingly healthy multi-billion dollar community banks are out there waiting to implode? That’s impossible to know, which is what’s so unsettling about Georgian’s sudden downfall. Just when the conventional wisdom suggests the banking crisis might be under control, along comes a reality check that tells us we’re still flying blind.”
- Canada’s international trade deficit rose to \$2 billion (CAD) in August, up from \$1.3 billion (U.S.) in July, reflecting a 5.1% decline in exports
- Canada’s Ministry of Finance reports that Ontario’s real gross domestic product (GDP) declined by 1% in the 2nd. quarter, citing reduced production in the manufacturing sector
- In a Wall Street Journal editorial entitled Stimulus Spending Doesn’t Work, Harvard professors Robert Barro and Charles Redick argue “The existing empirical evidence on the response of real gross domestic product to added government spending and tax changes is thin. In ongoing research, we use long-term U.S. macroeconomic data to contribute to the evidence. The results mostly favour tax rate reductions over increases in government spending as a means to increase GDP.”

Ian A. Gordon, The Long Wave Analyst

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