

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



Monday, November 2ND

In its monthly survey of purchasing managers at U.S. manufacturing firms, the Institute of Supply Management reports that its diffusion index rose to 55.7% in October from 52.6% in September, reflecting the fastest pace in over three years

MONDAY, NOVEMBER 2ND

- The Commerce Department reports that U.S. construction spending increased by .08% in September, to a seasonally adjusted annual rate of \$940.28 billion (U.S.)
- The National Association of Realtor's index for U.S. pending home sales rose by 6.1% in September to a reading of 110.1 from an August level of 103.8, marking its eighth consecutive monthly increase
- The CIPS / Markit survey of purchasing managers in the U.K. manufacturing sector rose to a reading of 53.7 in October, the highest reading since November 2007, from a revised 49.9 level in September
- Jon Greenlee, associate director of the Federal Reserve division which regulates banks, comments that the U.S. banking system is still "far from robust" because lenders still face threats from defaults on commercial real estate loans
- The Royal Bank of Scotland announces 3,700 job layoffs in its British branch network. A bank spokeswoman elaborated that the work force had to be streamlined because the bank had "30% more staff carrying out administrative duties than competitors. We are now improving the branch network in terms of processes as part of a 6 billion pound group-wide investment program, so staff can concentrate on customers."
- Ford Motor Co. reports a 3rd. quarter fiscal profit of \$997 million (U.S.) compared to a loss of \$161 million in the same period a year ago. In a conference call, Chief Executive Officer (CEO) Alan Mulally stated that "While we still face a challenging road ahead, our transformation is working and our underlying business continues to grow stronger."
- In a weekend interview on "Meet the Press" Treasury Secretary Tim Geithner commented that while the White House has not decided how to reduce the U.S. federal deficit, President Obama is committed to dealing with the deficit in a way that would not add to the tax burden of people making less than \$250,000 (U.S.) a year. "A lot of damage was caused by this (credit) crisis. It's going to take some time for us to grow out of this. Right now, we're focused on getting growth back on track." Most American workers earn less than \$250,000 (U.S.) a year. Obviously, the Obama administration believes that economic growth will reduce the U.S. federal deficit over time. The U.S. national debt has recently surpassed the \$12 trillion level and is projected by the Office of Management and Budget (OMB) to grow by another \$9 trillion (U.S.) over the next decade. Meanwhile, the Congressional Budget Office (CBO), the independent agency which costs out government programs, projects that left unchecked, "federal debt will continue to grow much faster than the economy over the long run." THIS IS WHERE THE RUBBER MEETS THE ROAD FOR PRESIDENT OBAMA'S COUNCIL OF ECONOMIC ADVISORS.

- A Financial Times article warns that “Japan is drifting helplessly towards a dramatic fiscal crisis. For 20 years the world’s second-largest economy has been able to borrow cheaply from a captive bond market, feeding its addiction to Keynesian deficit spending and allowing it to push public debt beyond the point of no return.” The International Monetary Fund (IMF) expects Japan’s gross public debt to reach 218% of gross domestic product (GDP) this year, 227% next year and 246% by 2014. Simon Johnson, former chief economist of the IMF, told the U.S. Congress last week that the (country’s) debt path was out of control and raised “a real risk that Japan could end up in a major default.”

## TUESDAY, NOVEMBER 3RD

- The Commerce Department reports that U.S. factory orders increased by 0.9% in September, compared to a decline of 0.7% in August.
- Berkshire Hathaway announces its purchase of all the 77% of outstanding shares of Burlington Northern Santa Fe Corp. that it doesn’t already own, for \$26 billion (U.S.) in cash and stock
- Johnson & Johnson announces 8,000 job layoffs of its global work force, within a corporate restructuring plan aimed at saving \$900 million (U.S.) a year
- Ford Motor U.S. vehicle sales declined by 3.1% in October
- The International Monetary Fund (IMF) sells 200 metric tonnes of gold to the Reserve Bank of India for \$6.8 billion (U.S.), representing half of the IMF’s planned gold sales announced last September and increasing India’s gold holdings to the tenth largest among the world’s central banks
- Chrysler’s U.S. vehicle sales declined by 32.3% in October
- The Reserve Bank of Australia raises its key lending rate by 25 basis points to 3.50%. Glenn Stevens, central bank governor, cites a surge in the Australian dollar to near parity with the U.S. dollar, has given him the scope to slow the pace of future interest rate increases.
- General Motors’ U.S. vehicle sales increase by 4.1% in October
- Hyundai Canada’s vehicle sales rose by 43% in October to 8,415 units

- The U.K. Government injects an additional 39.2 billion pounds of funding into the Royal Bank of Scotland (RBS) and Lloyds Banking Group. The Government has also agreed to guarantee 282 billion pounds of RBS’s toxic debts through the asset protection scheme (APS). Lord Myners, City Minister, commented that “We are in an altogether better position now. The likely costs and risks on the public finances have been markedly decreased.”
- A Washington Post editorial suggests that “the idea the government of a major advanced country would default on its debt – that is, tell lenders that it won’t repay them all they’re owed – was, until recently a preposterous proposition. Argentina and Russia have stiffed their creditors, but surely the likes of the United States, Japan or Britain wouldn’t. Well, it’s still a very, very long shot, but it’s no longer entirely unimaginable.” Ain’t that the truth!

## WEDNESDAY, NOVEMBER 4TH

- According to the Automatic Data Processing (ADP) employment report, private sector firms in the U.S. cut 203,000 jobs in October, compared to a revised 227,000 jobs lost in September, originally reported as 254,000. ADP provides payroll and human resource services to about one in every six U.S. workers, serving more than 500,000 companies.
- The Institute for Supply Management (ISM) non-manufacturing index in the U.S. declined to a reading of 50.6 in October from a level of 50.9 in September
- Microsoft announces an additional 800 job layoffs
- The World Bank raises its 2009 forecast for China’s gross domestic product (GDP) from 7.2% to 8.4%, but warned that a sustained recovery will require a shift in the economy to emphasize consumer spending instead of industry and investment .
- In a unanimous vote, the U.S. Federal Market Open Committee (FOMC) decided to keep its Federal Funds rate unchanged in the range of zero to 0.25% “for an extended period.” In a statement outlining its decision, the FOMC stated that “Household spending appears to be expanding but remains constrained by ongoing job losses, sluggish income growth, lower housing wealth and tight credit.”

- In a recent Conference Board of Canada business confidence survey, 63% of respondents expect an improvement in economic conditions
- The U.S. Securities & Exchange Commission (SEC) assesses JP Morgan Chase \$75 million (U.S.) in penalties, as well as a forfeiture of \$647 million (U.S.) in termination fees, to settle civil charges that its securities arm had engaged in an “unlawful payment scheme” to win municipal bond business in Jefferson County, Alabama, which includes the City of Birmingham

#### THURSDAY, NOVEMBER 5TH

- The U.S. Labor Department reports that initial claims for state unemployment benefits declined by 20,000 to a seasonally adjusted total of 512,000 in the week ending October 29th. Continuing claims, those drawn by workers for more than a week, fell by 68,000 to 5.75 million in the week ended October 22nd. According to the National Employment Law Project, a liberal advocacy group, in the past two months, more than 600,000 American workers have exhausted their unemployment benefits. Accordingly, Congress has voted to provide up to 14 weeks of “extended benefits” to those workers who have exhausted their state and federal benefits.
- U.S. retailers posted their best sales in more than a year recording gains of 2.2% in October, with discounters and department stores leading the way
- The Frankfurt-based European Central Bank, which sets monetary policy for the 16-nation euro zone, leaves its key refi rate at a record low 1%
- The Bank of England expands its massive toxic asset purchase program (quantitative easing) by 25 billion pounds (\$41 billion U.S.), while holding its key lending rate unchanged at a record low 1%
- Borders announces the closing of 200 stores (mostly Waldenbooks) and 1,500 job layoffs
- Statistics Canada reports that the value of Canadian building permits rose by 1.6% to \$5.1 billion (CAD) in September, citing higher intentions in the residential sector and gains in the value of multi-family dwellings, especially in Ontario and British Columbia
- Vancouver-based Goldcorp Inc. posts a profit of \$114.2 million (CAD) in its fiscal quarter ended September 30th. compared with a profit of \$297.2 million (CAD) in the same period a year ago. Goldcorp president and chief executive officer (CEO) Chuck Jeannes states that the company’s outlook “has never been brighter. Gold prices have exhibited continued strength and sustainability above \$1,000 per ounce, and with our production and cash costs trending positively, the stage is set for continued strength in cash flow and profitability through the end of the year and beyond.”
- Seattle-based Starbucks Corp. posts a profit of \$150 million (U.S.) in its 4th. fiscal quarter ended September 27th. citing \$580 million (U.S.) in cost savings and increased demand for its coffee drinks
- Computer networking giant, Cisco Systems, reports a net profit of \$1.8 billion (U.S.) in its 1st. fiscal quarter ended October 24th. down 19% from the same period a year ago
- The U.S. Congress votes to extend the \$8,000 (U.S.) tax credit for first-time home buyers, that was due to expire on November 30th., making it available to those who have a contract before May 1, 2010, on a primary residence priced up to \$800,000 (U.S.).
- Manulife Financial reports a loss of \$172 million (CAD) in its 3rd. fiscal quarter ended September 30th. compared to a profit of \$510 million (CAD) in the same period a year ago, citing lower corporate bond yield spreads and higher reserve requirements. The general level of interest rates prevailing in the fixed income markets impact the value of insurance policies on Manulife’s books, because they affect the amount the company estimates that it will earn on investments in the future. Naturally, these estimates also affect the amount of reserves the company must maintain, in order to ensure it can make payments to policy holders in the future.

#### FRIDAY, NOVEMBER 6TH

- The U.K. Pension Protection Fund, the government-sponsored, employee-financed body that insures the pension commitments of insolvent companies, reports that its deficit for the year to March 31 /09 increased from 517 million pounds to 1.2 billion pounds (\$857 million U.S. to \$1.9 billion U.S.)

- Gold bullion closes at a record high \$1,095.70 (U.S.) per ounce
- Suncor chief executive officer, Rick George, announces that the company will divest 30% of its natural gas assets, as well as sell some of its minority oil holdings in the North Sea
- The Labor Department reports that non-farm payrolls declined by a seasonally adjusted 190,000 in October, following a revised decline of 219,000 in September, originally reported as 263,000. It represents the 22nd. consecutive monthly decline in payrolls with job losses in the construction, manufacturing and retail sectors and brings the total number of jobs lost over that time frame to 7.3 million. Accordingly, the U.S. unemployment rate rose to 10.2% in October (the highest rate since April, 1993) from 9.8% in September. Perturbed by this report, President Obama stated "My economic team is looking at ideas such as additional investments in our aging roads and bridges (plus tax) incentives to encourage families and business to make buildings more energy efficient."

In other words, more government spending will be unleashed upon short-term / one-time infrastructure initiatives which have no lasting effect on economic growth.

- British Airways reports a pre-tax loss of 292 million pounds for the six months ended September 30th. and plans to layoff another 1,200 staff members in 2010, taking its total number of job layoffs to 4,900. Chief Executive Officer, Willie Walsh, stated that "Our revenues are likely to be about one billion pounds lower this year, so we're determined to reduce costs further to ensure we return to acceptable levels of profitability."
- After two months of job gains, Statistics Canada reports that more than 43,000 Canadian jobs vanished in October, while Canada's unemployment rate rose to 8.6% from 8.4% in September
- Vancouver-based Telus Corp. reports a profit of \$280 million (CAD) in its 3rd. fiscal quarter ended September 30th. compared to a profit of \$286 million (CAD) in the same period a year ago