

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



Monday, January 11TH

Canada Mortgage and Housing Corp. (CMHC) reports Canadian building permits declined by 4.6% in November

MONDAY, JANUARY 11TH

- Heineken NV announces the purchase of Femsa Cerveza, Mexico's second largest brewer, from Fomento Economico Mexicano SAB in an all stock transaction valued at \$7.7 billion (U.S.). Amsterdam-based Heineken will issue new shares which will give Femsa a 20% stake in the Heineken Group.
- The Group of Central Bank Governors and Heads of Supervision of the world's largest economies met over the weekend in Basel, Switzerland, and strongly endorsed the Committee on Banking Supervision's December 17 proposals to tighten regulations for banks around the world
- In a weekend CNN interview, White House Council of Economic Advisors Chair, Christina Romer confirms the Obama administration is "talking about actions right now to jump-start job creation. You don't get your budget deficit under control with a 10% unemployment rate."  
Quite true Ms. Romer, nor with a 15% unemployment rate
- Statistics Canada reports Canadian housing starts rose by 6% in December to 174,500 units
- China reports a 17.7% increase in exports in December, compared with the same period a year ago, placing it on track to overtake Germany as the world's largest exporter

TUESDAY, JANUARY 12TH

- The People's Bank of China announces it will increase the yuan reserve requirement ratio for large banks by 50 basis points (1/2 of 1%) from the current level of 15.5%, effective January 18th. amid concerns that China's economy is being flooded with cash
- The Commerce Department reports the U.S. trade deficit widened by 9.7% in November to \$36.4 billion (U.S.), a 10-month high, from a revised \$33.2 billion (U.S.) in October
- According to an Obama administration official, President Barack Obama plans to raise \$120 billion (U.S.) through a fee to be levied on financial institutions, in order to recoup losses suffered by the Troubled Asset Relief Program (TARP)
- Statistics Canada reports the country posted a trade deficit of \$344 million (CAD) in November, from a revised \$503 million (CAD) in October. The agency stated exports rose by 1.1% amid strength in energy product shipments, while imports rose by 3.9% reflecting higher demand for energy, automobiles and machinery.
- Statistics Canada reports the new housing price index rose by 0.4% in November, following a 0.3% rise in October. Year over year, the index declined by 1.4% in November following a 2.1% drop in October.

- The U.S. Federal Reserve reports a record profit of \$46.1 billion (U.S.) for 2009, reflecting increased interest income and capital gains from securities the central bank held on its balance sheet
- Greece is condemned by the European Commission (EC) for falsifying data about its public finances. The EC stated figures from Greece were so unreliable that its budget deficit and public debt might be even higher than the government had claimed last October.
- Fitch Ratings warns the U.S. that it will lose its 'AAA' credit rating unless it acts to bring its budget deficit under control. Brian Coulton, the agency's head of sovereign ratings, said the U.S. is shielded for now by its pivotal role in global finance and the dollar's status as the key reserve currency, however, difficult decisions must "be made regarding spending and taxes to underpin market confidence in the long-run sustainability of public finances. In the absence of measures to reduce the budget deficit, over the next 3 to 5 years, government indebtedness will approach levels by the latter half of the decade that will bring pressure to bear on America's 'AAA' (credit rating) status."
- In its latest 'Beige Book' survey, the U.S. Federal Reserve reports regional economic conditions in 10 of its 12 districts have "improved modestly," but the job market remains weak throughout much of the country
- Standard & Poors downgrades California's \$64 billion (U.S.) general obligations rating from 'A' to 'A' (Low) and its \$9.4 billion (U.S.) lease revenue bonds by three grades from 'A' (Low) to 'BBB' (Low). S&P warns that the State is once again facing cash shortages in March and July, as it attempts to resolve its \$20 billion (U.S.) deficit. S&P further warns that Governor Schwarzenegger's proposals to close the deficit rely too much on federal help and underestimate the difficulty of getting voters and lawmakers to agree to his plan.
- Societe Generale, France's second-largest bank by market capitalization, issues a profit warning of \$2.03 billion (U.S.) in loan losses from real estate assets. Chief Executive Officer (CEO) Frederic Oudea stated the decision to issue a profit warning was made after learning that Moody's Investors Service might lower its debt ratings on some SocGen asset classes.

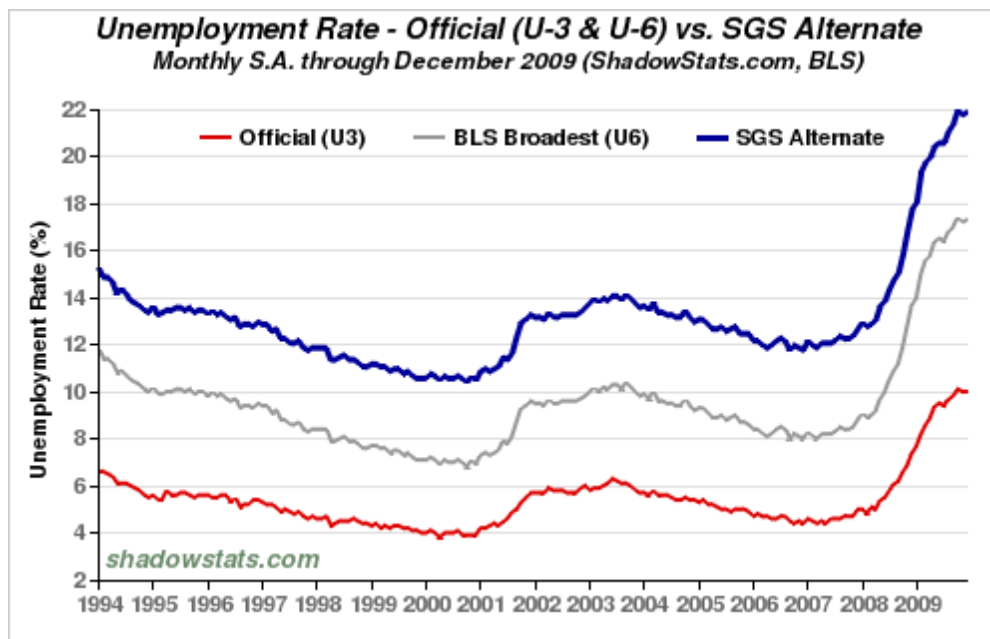
#### WEDNESDAY, JANUARY 13TH

- Preliminary data from the Federal Statistical Office reveals that Germany's gross domestic product (GDP) contracted by 5% in 2009, representing the steepest contraction since the Second World War
- In a survey of euro zone public finances, ratings agency Moody's Investors Service warns that Greece and Portugal face a high risk of an economic "slow death" as a result of their low competitiveness and high budget deficits
- In a new report titled Estimating Potential GDP and the Government's Structural Budget Balance, Canadian Parliamentary Budget Officer (PBO) Kevin Page warns that the Federal Government's projection of its budget deficit narrowing to about \$11 billion (CAD) by 2013 – 2014 is far too optimistic. Since the PBO expects Canada's gross national product to grow at an annual average rate of 1.9% between 2009 and 2014, he is forecasting a structural deficit of \$18.9 billion (CAD) in 2013 – 2014. Mr. Page states "The decline in the government's structural balance relative to potential income over this period, is largely due to statutory corporate income tax and GST rate reductions influencing revenues close to their lowest levels since 1976 – 1977." (See Winter Warning, January 11, 2010: It's The Debt, Stupid – Oh Canada, Glorious and Free).

#### THURSDAY, JANUARY 14TH

- Intel Corp., the world's largest computer chipmaker, posts a 4th. quarter profit of \$2.3 billion (U.S.) compared with a profit of \$234 million (U.S.) in the same period a year ago
- U.S. President Barack Obama proposes levying a Financial Crisis Responsibility Fee on as many as 50 American financial firms each with assets in excess of \$50 billion (U.S.), commencing June 30th. In a comment to the media, an administration official stated the tax would likely raise \$90 billion (U.S.) over 10 years and \$117 billion (U.S.) over 12 years; and is estimated by the Office of Management and Budget (OMB) to be sufficient to recoup all government losses from the Troubled Asset Relief Program (TARP).
- Harvard University economist Martin Feldstein warns the U.S. economy faces "a significant risk of another recession in 2010" unless the Obama administration promotes confidence it can manage a growing national debt level, now in excess of \$12.3 trillion (U.S.)
- Japan's government reports the country's core machinery orders (a leading indicator of corporate capital spending) declined by 11.3% in November, compared with a drop of 4.5% in October

- The Commerce Department reports U.S. retail sales declined by 0.3% in December compared to November; and by 6.2% for the year 2009 compared to 2008
- The National Institute of Economic and Social Research (NIESR) reports its most recent estimate reveals Britain's gross domestic product grew by 0.3% in the 4th. quarter of 2009, however for the entire year, GDP contracted by 4.8%, the biggest contraction in 88 years
- On the second day of the Federal Crisis Inquiry Commission (FCIC) hearings in Washington, Shelia Bair, head of the Federal Deposit Insurance Commission (FDIC) which regulates the U.S. banking industry, apologizes for letting the public down. "Not only did market discipline fail to prevent the excesses of the last few years, but the regulatory system also failed in its responsibilities."
- In its Global Risks Report, the World Economic Forum (WEF) warns of a "significant chance" of a second financial crisis involving another asset price bubble implosion, as well as a full-scale sovereign fiscal crisis. The report highlights the risk of a possible derailment of the nascent economic recovery across the world, with particular concern surrounding China. Robert Greenhill, chief business officer of the WEF, also comments: "The U.S. and U.K. will have among the highest debt burdens and the danger may not be of a default, but it will certainly dampen economic activity".
- According to the Association of British Insurers, consumer confidence waned during the 4th. quarter of 2009 as 32% of people surveyed expect the U.K. economy to deteriorate further during 2010, up from a reading of 22% in the 3rd. quarter
- The Congressional Budget Office (CBO) reports the U.S. Government posted a deficit of \$383.9 billion (U.S.) in the first quarter (October – December) of the current fiscal year ending September 30, 2010; which represents \$1.536 trillion (U.S.) on an annualized basis.
- The Labor Department reports U.S. initial claims for state unemployment benefits increased by 11,000 to a seasonally adjusted 444,000 in the week ended January 2nd., while continuing claims declined by 200,000 to 4.6 million in the week ended December 26th. However, the number of continuing claims does not include 5.3 million people who have exhausted their 26 weeks of benefits provided by states and may be receiving extended benefits for up to 73 additional weeks, funded by the Federal government.
- The Shadow Government Statistics (SGS) Alternate Unemployment Rate depicted below reflects current unemployment reporting methodology adjusted for SGS-estimated long-term discouraged workers who were defined out of official existence in 1994. That estimate is added to the Bureau of Labor Statistics (BLS) estimate of U-6 unemployment, which includes short-term discouraged workers.



- Did today signal the peak in stock prices? At the Long Wave Group we think this might be so. January 14, 2010 marked the 10 year anniversary of the Dow peak in 2000 and coincidentally, the peak in prices today was exactly 1,000 points below the January, 2000 Dow Jones price peak.

#### FRIDAY, JANUARY 15TH

- JP Morgan Chase & Co. reports a profit of \$3.3 billion (U.S.) in the fourth quarter citing strong investment banking results, but still negatively impacted by \$7.8 billion (U.S.) of continuing loan losses for credit cards, mortgages and other consumer debt. However, the bank managed to post an \$11.7 billion (U.S.) profit for the year 2009.
- The Ottawa-based Canadian Real Estate Association (CREA) reports existing home sales in Canada rose by a record 7.7% in December

- The Reuters/University of Michigan consumer sentiment index rose slightly to a reading of 72.8 in January from a level of 72.5 in December, but remains well below its long-term average
- The Labor Department reports the U.S. consumer price index rose by 0.1% in December compared to November. For the entire year of 2009, the index declined by 0.4% compared to 2008, the first annual decline since 1955.
- The Commerce Department reports U.S. industrial production rose by 0.6% in December, mainly driven by increased demand in the utilities sector
- According to U.S. Treasury Department data, the Obama administration's foreclosure prevention program, Making Homes Affordable, has reached 850,000 American homeowners through December, 2009, but the initiative continues to struggle to make a significant impact in the housing sector

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"Those who cannot remember the past are condemned to repeat it." Santayana