



LONGWAVE GROUP



IAN GORDON ECONOMIC FORECASTER & INTERPRETER OF THE KONDRATIEFF CYCLE

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

May 11, 2009

THAT WAS THE WEEK THAT WAS

Monday, May 11th.

- The U.S. Treasury increases its forecast for the 2009 federal government fiscal deficit to \$1.84 trillion (U.S.)
- U.S. Bancorp to raise \$2.5 billion (U.S.) via share sale and a \$1 billion (U.S.) in debt issuance; in addition, Bank of New York Mellon, Capital One Financial and Key Corp. are issuing new stock to raise capital for possible TARP repayment
- General Motors CEO Fritz Henderson, says it is “*more likely*” that GM is headed for bankruptcy by June 1st. – the deadline imposed by the U.S. government for the automaker to restructure, or face bankruptcy
- Canadian new home prices fell by 0.5% in March
- Nortel Networks posts a \$507 million (CAD) loss in the 1st. quarter. The company is selling its Westwind property to the City of Calgary for \$97 million (CAD) as part of its restructuring program, while still in bankruptcy protection
- The Organization for Economic Co-operation and Development (OECD) says the Canadian economy is still in the throes of a “*strong slowdown*,” despite tentative signs of recovery in other economies
- Microsoft raises \$3.75 billion (U.S.) via 5-year, 10-year and 30-year bond issues ranging in yield from 2.97% to 5.21%

Tuesday, May 12th.

- The U.S. trade deficit increased by 5.5% to \$27.6 billion (U.S.) in March from \$26.1 billion (U.S.) in February, as American exports of goods and services fell by 2.4% to a seasonally adjusted \$123.6 billion (U.S.)
- Canada’s trade surplus grows to \$1.1 billion (CAD) in March
- The median U.S. home price fell by 14% to \$169,000 (U.S.) in the 1st. quarter compared to a year earlier, as banks sold foreclosed properties in California and Florida. Distressed sales typically took place at prices 20% less than others.
- Nissan Motor posts a \$2.4 billion (U.S.) loss in its fiscal 4th. quarter, as vehicle sales plummeted globally and forecast another loss for the current year, as the company puts growth plans on hold to conserve cash
- The total value of China’s exports fell by 22.6% in April from a year earlier to \$91.9 billion (U.S.)
- The Federal National Mortgage Corp. (Freddie Mac) asks the U.S. Government for additional financial aid of \$6.1 billion (U.S.)
- The number of bankruptcies filed by Canadian consumers and businesses rose by 52% to 11,085 in March, representing more than double the annual rate of increase in February, when bankruptcies rose by 22%.



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- CP Rail to raise \$300 million (CAD) via bond issue
- China's industrial production rose by 8.3% in March and by 7.3% on a year-over-year basis
- At National Assembly hearings in Quebec City regarding \$40 billion (CAD) of losses, including those for non-bank asset backed commercial paper (ABCP), incurred by the Caisse de Depot et Placement du Quebec, former President and CEO Richard Guay told the Commission that the Caisse was relying on an endorsement by the DBRS rating agency that non-bank asset backed commercial paper was of AAA quality.

Obviously, Mr. Guay has never been employed as a bond trader, or money market trader for a bona fide Canadian investment dealer. Pity! See Winter Warning, February 16, 2009 – Your First loss Is Always Your Smallest.

Wednesday, May 13th.

- The European Union levies a record anti-trust fine of \$1.45 billion (U.S.) against Intel, the world's largest chipmaker, for abusing its dominant market position and using illegal sales practices, to encourage manufacturers to use its microprocessor chips. The company will appeal this decision.
- The International Monetary Fund (IMF) advises the European Union to conduct stress tests on individual banks and warns that economic recovery in the region by 2010 depends upon bolder and more forceful government policy action
- U.S. residential foreclosures rose to a record 342,038 properties in April
- ING Canada posts 1st. quarter loss of \$36.3 million (CAD) due to equity portfolio losses
- U.S. retail sales declined by 0.4% in April, compared to an increase of 1.1% in March, downwardly revised from a previously reported increase of 1.3%
- Province of Ontario raises \$1.75 billion (U.S.) issuing 3-year floating rate notes priced 45 basis points over the 3-month London Interbank Offered Rate (LIBOR)
- Canadian new vehicle sales rose by 6.3% in March
- The Municipal Finance Authority of British Columbia (MFA) raises \$450 million (CAD) with a 5-year bond issue, priced 100 basis points in yield (1%) over comparable Government of Canada bonds
- In a Financial Times article entitled 'America's AAA rating is at risk' David Walker, chief executive of the Peter G. Peterson Foundation and former comptroller general of the United States, espouses the creation of a "future fiscal commission" authorized by the U.S. Congress to compel the federal government "to put its own financial house in order."

Bravely written, Mr. Walker, but with the American national debt level now at \$11.3 trillion (U.S.) and increasing at the rate of \$100,000 (U.S.) per second, we believe that your noble suggestion arrives as too little, too late! See Winter Warning, September 22, 2008 – The Flight to Folly.

Thursday, May 14th.

- U.S. initial claims for state unemployment benefits rose by 32,000 to 637,000 in the week ending May 9th. while continuing claims increased to a record 6.56 million in the week ending May 2nd.
- U.S. producer price index (PPI) rose 0.3% in April, as the index recorded a drop of 3.7% on a year-over-



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year basis

- The U.S. Securities and Exchange Commission (SEC) is preparing civil mortgage fraud charges against Countrywide Financial Corp. co-founder Angelo Mozilo (See *Winter Warning*, October 6, 2008 – O, *What a Tangled Web Weave, When First We Practice To Deceive*)
- The International Energy Agency (IEA) predicts oil consumption by developed economies will fall by 5.1% in 2009 compared to 2008.
- Chrysler cuts 789 dealerships from its U.S. network, but none in Canada
- Canadian home sales rise 11.2% in April
- Nike announces 1,750 job layoffs worldwide
- Shareholders launch a \$520 million (CAD) class action lawsuit against Timminco and its management, accusing the company of making false claims
- Finning International profit falls by 36% in the 1st. quarter to \$45 million (CAD), citing weak equipment sales, reduced rental activity, as well as higher restructuring costs
- Greater Toronto Airport Authority (GTAA) raises \$300 million (CAD), floating a 10-year bond issue at a yield of 5.96% and a yield spread of 280 basis points over comparable Government of Canada bonds
- Telus Corp. raises \$700 million (CAD) by offering a 5-year bond issue at a yield of 4.95% and a yield spread of 285 basis points over comparable Government of Canada bonds

Friday, May 15th.

- Gary Stern, President of the Minneapolis Federal Reserve district bank, comments that the Fed does not have to start raising interest rates soon. *“We have some time to observe the performance of the economy and hope that the recovery will, not only materialize, but also, that it has a firm foundation”.*
‘How Firm a Foundation, Ye Saints of the Lord?’
- The University of Michigan / Reuters consumer sentiment index rose to 67.9 in May from 65.1 in April
- Ordered by the U.S. Treasury to raise capital as a result recent stress tests, Atlanta-based SunTrust Banks Inc. will sell \$1.25 billion (U.S.) in common stock and cut its dividend from 10 cents (U.S.) per share to one penny
- U.S. industrial production (output at factories, mines and utilities) declined by 0.5% in April, after falling a revised 1.7% in March
- Holding \$2.5 billion (U.S.) of vehicle inventory, General Motors announces closing of 1,100 American dealerships by 2010
- European Union (EU) economy contracts by 4.6% in the 1st. quarter, fueled by the German economy contracting by 3.8% and the Italian GDP falling by 2.4%
- U. S. consumer price index remained unchanged from April from March, however, the CPI has fallen by 0.7% on a year-over-year basis
- Canadian factory orders fell 2.7% in March
- Six major American insurance companies, namely the Hartford Financial Services Group; Prudential



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Financial; Lincoln National; Allstate; Ameriprise and Principal Financial Group, have qualified for preliminary approval to receive billions of dollars of financial assistance, under the U.S. Federal Government's Troubled Asset Relief Program (TARP)

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