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IAN GORDON ECONOMIC FORECASTER & INTERPRETER OF THE KONDRATIEFF CYCLE

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

June 22, 2009

THAT WAS THE WEEK THAT WAS

Monday, June 22nd.

- World Bank forecasts the global economy will contract by 2.9% in 2009 which is deeper than the 1.7% contraction previously estimated.
- Chicago-based United Airlines announces an additional 600 flight attendant layoffs, effective August 31st.
- Canadian Finance Minister Flaherty is proceeding with initiative to establish a national securities regulator by naming Doug Hyndman, Chair of the B.C. Securities Commission, to be Chairman of the transition office which will perform the groundwork necessary to create the agency. Bryan Davies, Chair of the Canada Deposit Insurance Corp. will serve as Vice Chairman
- Unionized editorial, advertising and circulation employees at the Globe and Mail newspaper vote 97% in favour of granting the bargaining committee of the Communications, Energy and Paperworkers Union, the authority to call a strike unless the company improves its contract offer. Accordingly, a strike / lockout date has been set for 12:00 midnight on June 30th. for almost 500 employees.
- The Securities and Exchange Commission files civil fraud charges against Stanley Chais, a prominent California money manager and Cohmad Securities Corp., alleging both assisted Bernie Madoff's Ponzie scheme by steering billions of dollars into it, in exchange for hundreds of millions of dollars in fees and profits

Tuesday, June 23rd.

- U.S. Government to extend a \$5.9 billion (U.S.) loan to Ford Motor and a \$16 billion (U.S.) loan to Nissan, as part of a new federal factory retooling program, targeting fuel efficiency research and development.
- National Association of Realtors reports U.S. existing home sales rose by 2.4% in May to a seasonally adjusted annual rate 4.77 million, matching a similar gain of 2.4% in April. The national median home price declined by 16.8% to \$173,000 on a year-over-year basis and inventories of unsold homes declined by 3.5% to 3.8 million, representing a 9 ½ month supply at the May sales pace.
- Nokia Siemens Networks will spend \$650 million (U.S.) to buy the core operations of Nortel Networks, the Canadian telecommunications equipment manufacturer that remains under bankruptcy court protection. European investors reacted negatively to this news with an industry analyst at Deutsche Bank commenting: *"Overall, we are unenthusiastic about committing fresh capital to the low-growth, low-margin and working capital intensive network business."*
- Outgoing Toyota President Katsuaki Watanabe told the annual general meeting in Yokohama *"We expect to face continued hardship in our business environment for the near term,"* adding that the company would try to achieve deeper cost cuts than planned. The auto industry slump, exacerbated by tight credit conditions and rising unemployment, has already forced U.S. rivals General Motors and



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Chrysler into bankruptcy. (See *Winter Warning: General Motors – Motown’s 800-Pound Gorilla Is No Longer in the Room*, June 22, 2009)

- Moody’s Investors Service confirms that the U.S. Government’s ‘AAA’ credit rating currently has a stable outlook, which indicates that a change is not expected over the next 18 months. However, if the United States’ ability to raise a large amount of debt at a low cost, enabling it to bring its public debt level back to a downward trajectory, or, if the U.S. dollar were severely challenged as the main international reserve currency; such factors represent possible risks that could lead to a downgrade.

Returning America’s public debt level to a downward trajectory presents an immense and formidable challenge for the U.S. Government. At this time of writing, the U.S. national debt is approaching \$11.4 trillion (U.S.) growing at the rate of \$1 million (U.S.) every 10 seconds.

- Bell Canada to raise \$1 billion (CAD) in capital via debt issue

Wednesday, June 24th.

- U.S. durable goods orders rose by 1.8% in May following a similar gain of 1.8% in April
- Swedish furniture giant IKEA announces 5,000 job layoffs from its global work force
- Following its 2-day meeting in Washington, the Federal Reserve Board Open Market Committee (FOMC) left its Fed Funds rate range unchanged at 0 – 0.25% and stated that “*substantial resource slack is likely to dampen cost pressures*” and the Committee expects that inflation will remain subdued for some time.
- Toyota vehicle sales in Japan declined by 21% in May on a year-over-year basis, while global vehicle production declined by 37.9%
- Agribusiness giant Monsanto posts a drop of 14% in quarterly earnings; announces 900 job layoffs companywide and unveils plans to restructure its crop protection business
- The European Central Bank (ECB) extends 1-year loans of more than 442 billion euros or \$620 billion (U.S.) to European banks, exceeding the 348 billion euros it injected into the financial system in December, 2007
- Sporting goods giant Nike reports its fiscal 4th. quarter profit fell by 30%, citing restructuring costs and “*consumers taking a pass on things they don’t need.*”
- Drug store operator Rite Aid posts a fiscal 1st. quarter loss of \$98.4 million (U.S.) compared to a loss of \$156.6 million (U.S.) a year ago, stating that it was able to refinance some loans; as the company struggles with a \$6 billion (U.S.) debt load
- U.S. new home sales fell 0.6% in May on a seasonally adjusted annual basis and down 32.8% from May, 2008
- Retirement plans of millions of British workers have been placed in doubt by Britain’s growing pension crisis. According to a series of authoritative reports, Britons cannot rely on the government to help provide their retirement benefits after the state pension was exposed as the least generous in the Western world.



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- Bank of England Governor Mervyn King says the scale of the UK deficit is “truly extraordinary” and warns of “a long, hard slog to recovery.”

Thursday, June 25th.

- Final U.S. gross domestic product (GDP) for the 1st. quarter of 2009 is upwardly revised to minus 5.5% from a previously reported minus 5.7%
- The Labor Department reports that U.S. initial claims for state unemployment benefits rose by 15,000 to 627,000 in the week ending May 20th. while continuing claims rose by 29,000 to 6.74 million in the week ending May 13th.
- Europe’s second largest steel maker Corus announces a further 2,000 job layoffs in Britain’s industrial heartlands. The Community trade union, which represents manufacturing workers in the U.K., told Reuters that it was expecting 500 jobs to be lost in Scunthorpe and 800 in Rotherham, both towns in northern England.
- The Canadian economy lost 51,400 jobs in April, mostly in the service sector
- Honda reduced global production by 38% in May
- Federal Reserve Board Chairman Ben Bernanke was berated by members of the House Oversight and Government Reform Committee, inquiring into the central bank’s role in reshaping the banking system and specifically, Mr. Bernanke’s part in engineering a government aid package for the Bank of America
- Lear Corp., the world’s second largest auto seat manufacturer, is preparing to file for bankruptcy protection as soon as next week, if the company cannot reach an out-of-court refinancing agreement with creditors
- Union Bank of Switzerland raises 2.1 billion pounds in capital via equity issue, following heightened pressure from regulators and the bank warned that it would post a loss in the 2nd. quarter
- In its annual staff report on the state of the Irish economy, the International Monetary Fund (IMF) described Ireland’s short-term outlook as “bleak” and predicted that the economy would contract by 8.5% in 2009 and by a further 3% in 2010. The IMF also forecast the Ireland’s unemployment rate will hit 15.5 % in that year.
- California’s Controller, John Chaing, declares that he will have to issue IOU’s in a week’s time if State lawmakers are unable to quickly solve the \$24 billion (U.S.) State budget deficit problem. Meanwhile, State Treasurer, Bill Lockyer, plans to draw on reserves for economic recovery sales tax bonds, in order to meet the State’s outstanding debt servicing payments. (See *Winter Warning, California – The Golden State at the Brink of Collapse, June 8, 2009*).

Friday, June 26th.

- The Commerce Department reports that U.S. personal incomes rose 1.4% in May due to the issuance of one-time \$250 (U.S.) government stimulus cheques, sending the personal savings rate up to a 15-year high of 6.9%, having been as low as 0.0% in April, 2008



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- Calgary-based Shaw Communications reports 3rd. quarter net income rose to \$131.95 million (CAD) from \$128.1 million (CAD) in the same period a year ago
- In its annual financial stability report, the People's Bank of China renewed its call for a super-sovereign currency, to reduce the U.S. dollar's domination of the world's monetary system: "*An international monetary system dominated by a single sovereign currency has intensified the concentration of risk and the spread of the (financial) crisis.*" The U.S. dollar index future spot price continues to hover near recent low levels, closing today at 79.90.

Written By: Christopher Funston

Ian A. Gordon, The Long Wave Analyst, www.longwavegroup.com

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