



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

July 20, 2009

## THAT WAS THE WEEK THAT WAS

### Monday, July 20th.

- U.S. index of leading economic indicators rose by 0.7% in June
- CIT Group reportedly acquires a \$3 billion (U.S.) loan for 2 ½ years from its bondholders, in a bid to stave off bankruptcy
- Foreign investors purchased \$19.4 billion (CAD) of Canadian securities in May
- Canada's wholesale sales fell to 40.1 billion in May
- Noranda Income Fund suspends monthly distributions
- Intel to borrow \$1.75 billion (U.S.) via debt issue, in order to finance a share repurchase program
- As Spain's unemployment rate approaches 20%, the highest in the Euro zone; and with Spain's economy expected to contract by 4.2% this year, the Spanish Banking Association reports that domestic bank robberies this year are outpacing the number recorded in 2007, by about 20%. (See *Winter Warning, July 20, 2009 – The Scourge of Unemployment*).
- The Boston Newspaper Guild approves a package of wage cuts, unpaid furloughs, a pension freeze and the elimination of job guarantees for many union members, to save \$10 million (U.S.) at the Boston Globe newspaper, enabling it to continue publishing.

### Tuesday, July 21st.

- Testifying at a hearing of the House Committee on Government Oversight and Reform, Special Inspector General Neil Barofsky relates that the U.S Treasury Department has rejected several of his recommendations concerning more transparency about how TARP (stimulus) money is being spent by recipients.
- California Governor Schwarzenegger strikes a preliminary agreement with the state government which includes spending cuts of about \$15 billion (U.S.), new borrowing, but no new tax increases. This agreement requires a two thirds approval vote by the state legislature to become law and this vote is expected to occur on Thursday, July 23rd.
- According to the Rockefeller Institute of Government, sharply falling tax revenues across the U.S. in the second quarter have forced most states to reduce spending and services further, in attempts to balance their budgets.
- In a report by Close Brothers Corporate Finance, as at July 1st. 24% of all financially distressed companies in Western Europe were headquartered in the U.K.; 14% in Germany; 12% in Italy and 6% in France.
- Public sector net borrowing in the U.K. was a record 13 billion pounds in June
- Bank of Canada leaves the bank rate unchanged at 0.25% and forecasts Canada's gross domestic product (GDP) will grow by 3% in 2010 and 3.5% in 2011. In an accompanying statement, Bank of Canada Governor Mark Carney stated that "a higher currency (90.35 cents U.S.) and industrial



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*restructurings (read bankruptcies) in the automotive and forest products sectors were significantly moderating the pace of economic growth.”*

*Since when does a 90 cent Canadian dollar, in terms of a devalued U.S. dollar, represent a high valuation? If the Governor deems the Canadian dollar to be overvalued at this level, his GDP growth forecasts for the next two years certainly won't send the loonie plunging to 80 cents (U.S.).*

*It appears to us that Governor Carney's lack of dual citizenship status is definitely showing!*

- Continental Airlines announces 1,700 job layoffs
- Southwest Airlines cuts annual passenger capacity by 5%
- Merck's net profit declines by 12% to \$1.6 billion (U.S.) in the 2nd. quarter

## Wednesday, July 22nd.

- Canadian retail sales rose 1.2% in May
- Husky Energy reports a profit of \$430 million (CAD) in the 2nd. quarter, compared to a profit of \$1.36 billion (CAD) a year ago
- Under proposed legislation sent to Congress by the U.S. Treasury, credit rating agencies would face a myriad of new disclosure rules and restrictions, but would not be forced to overhaul their business models
- Morgan Stanley reports 2nd. quarter loss of \$159 million (U.S.) representing its third consecutive quarterly loss

## Thursday, July 23rd.

- Italian carmaker Fiat reports a loss of \$254 million (U.S.) in the 2nd. quarter citing “*an extremely difficult trading environment*”
- U.S. federal government's Pension Benefit Guaranty Corp. (PBGC) impounds the pension plan of auto parts supplier Delphi Corp. at a cost of \$6.2 billion (U.S.)
- Japan's exports rose by a seasonally adjusted 1.1% in June from May, as its trade surplus increased for the first time in 18 months
- In his periodic monetary policy report, Canada's central banker, Mark Carney, predicts that the country's gross domestic product (GDP) will expand in the current quarter.

*The Royal Bank of Canada should hire this man as an economist quickly, before the Bank of Nova Scotia snaps him up!*

Furthermore, Mr. Carney considers a 92 cent (U.S.) Canadian dollar against a weakened U.S. dollar to be a “*drag on Canada's economic growth*” and may cause the bank to intervene in the currency markets “*where it has considerable flexibility.*”

- The Public Sector Pension Investment Board, a Canadian Crown corporation which invests pension monies for the Canadian public service; as well as for the Royal Canadian Mounted Police, the Canadian Armed Forces and the Reserve Forces, reports a loss of 22.7%, or \$5.1 billion (CAD) in the fiscal year ending March 31, 2009. Chief Executive Officer (CEO) Gordon Fyfe commented “*we experienced exceptionally difficult financial and economic times in Canada and around the world last*



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year". What investment manager didn't? Mr. Fyfe's compensation totaled \$1.42 million (CAD) in fiscal 2009, up 11% from \$1.28 million (CAD) the previous year. His remuneration included a \$485,000 (CAD) base salary, an annual bonus of \$189,122 (CAD) a deferred incentive plan payment of \$611,100 (CAD) benefits and other compensation worth \$35,876 (CAD) and accrued pension benefits worth \$98,500 (CAD). PSP Fund Chairman, Paul Cantor, stated that due to underperformance in 2009, executives did not receive short-term or long-term bonuses allocated for fund performance, however, the Board of Directors decided to pay the portion of short-term bonuses based upon achieving individual objectives. *Prithee, what were they? Perfect attendance? Never being late for work? Forgoing the odd lunch invitation from the investment dealer community? Our brave and valiant Armed Forces, fighting the Taliban in the oppressive heat, muck and quagmire of that god-forsaken place called Afghanistan, deserve better. We say, your portion of short-term bonuses for fiscal 2009, should be forfeited and count yourselves very overpaid indeed, being employed at such inflated salaries. Of all people, Board Chairman, Tony Gage, former portfolio manager and President of Phillips Hager North, should know better.*

- Canadian fertilizer giant Potash Corp. reports net earnings of \$187.1 million (U.S.) compared to \$905.1 million (U.S.) a year ago. The company cited market conditions were toughest in North America, where sales declined sharply in its potash, phosphate and nitrogen sectors.
- Publicly traded investment dealer GMP Capital will merge its wealth management arm with privately held Richardson Partners Financial to form a new firm called Richardson GMP Ltd. The combined firm will oversee more than \$11 billion (CAD) in assets, among 114 investment advisory teams and will have 17 offices across Canada.
- Ford Motor posts a profit of \$2.3 billion (U.S.) in the 2nd. quarter, due mainly to a \$7.7 billion debt reduction for cash and stock recorded last March

## Friday, July 24th.

- The State of California faces a long list of economic woes, but the current water shortage in many areas represents an unprecedented crisis and is the single biggest problem facing California's massive agricultural industry
- Canadian Finance Minister Flaherty allows Air Canada a 21-month moratorium to fund a \$2.9 billion (CAD) deficit in its pension plan until April, 2011, enabling the carrier to avert a bankruptcy filing
- The Canadian federal government posted a \$7.5 billion (CAD) deficit during the April-May period, the first two months of the 2010 fiscal year, *already making a mockery of the government's last budget deficit projection of \$85 billion (CAD) over the next five years.*
- The Office for National Statistics reports that U.K. gross domestic product (GDP) contracted by 0.8% in the second quarter following a 2.4% decline in the 1st. quarter; representing the 5th. consecutive quarterly decline in output
- South Korea's economy grew by 2.3% in the 2nd. quarter



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