



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

August 24, 2009

THAT WAS THE WEEK THAT WAS

Monday, August 24th.

- Canadian retail sales rose by 1% to \$34.4 billion in June, led by higher gasoline prices
- Euro zone industrial orders rose by 3.1% in June
- Sweden's Finance Ministry revises its gross domestic product (GDP) forecast for 2009 to minus 5.2% from a previous prediction of 4.2%

Tuesday, August 25th.

- U.S. President Obama reappoints Ben Bernanke as Federal Reserve Board Chairman for a second 4-year term which begins in January, 2010 and which requires Senate confirmation.
Obviously, this announcement comes at this time in order to remove any doubt or uncertainty from the marketplace. Basically, for reasons of continuity and perusing the list of potential alternative candidates, Mr. Obama had no other choice.
- The New York based Conference Board reports the U.S. consumer confidence index rose to a reading of 54.1 in August from 47.4 in July.
- The S&P/Case Shiller index measure of home prices in 20 major U.S. cities in the 3 months ended June 30th. rose by 1.4% from the level in the 3 months ended May 31st. It is the first time the index has risen for 2 consecutive months since mid-2006, however, home prices are still 15.4% lower on a year-over-year basis.
- White House budget director, Peter Orszag, announces a 19% upward revision in the Obama administration's forecast for the U.S. budget deficit in fiscal 2010 to \$1.5 trillion (U.S.). In its mid-year economic review, the Office of Management and Budget (OMB) also forecast that U.S. gross domestic product (GDP) will grow by 2% in 2010 versus the 3.2% rate predicted last May and raised its estimate of the government's deficit over the next decade to \$9 trillion (U.S.) from \$7.1 trillion. The OMB report stated that "*the American economy is still in the midst of a serious economic downturn and the long-term (budget) deficit outlook remains daunting.*"
- The U.S. Treasury auctions \$109 billion (U.S.) of fixed income securities: including \$42 billion of 2-year notes today; followed by \$39 billion of 5-year notes on Wednesday and \$28 billion of 7-year notes on Thursday
- The Bank of Montreal (BMO) posts a profit of \$557 million (CAD) in the 3rd. fiscal quarter ended June 30th.
- Staples, the world's largest office supply retailer, reports a net income of \$92.4 million (U.S.) in the fiscal 2nd. quarter ended August 1st. compared to a profit of \$150.2 million (U.S.) in the same period a year ago
- Moody's Investors Services cut the Province of New Brunswick's credit rating to Aa2 from Aa1 with a "stable" outlook, affecting \$11.2 billion (CAD) of the Province's debt. Moody's stated that as a result



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of anticipated borrowing requirements, net direct and indirect debt may increase to more than 150% of the Province's revenues over the next 4 years. "While we expect that tax reforms will support long-term economic growth, the (proposed) tax rate reductions will impair near-term revenue generation, impacting fiscal outcomes and borrowing requirements," Moody's concluded.

Wednesday, August 26th.

- U.S. durable goods orders rose by 4.9% in July versus a gain of 2.5% in June
- The Munich, Germany based Ifo Institute's business climate index rose to a reading of 90.5 in August from a level of 87.4 in July
- The Royal Bank of Scotland (RBS) is scaling back pension benefits for 62,500 employees by capping the portion of any salary increase that counts as final pay for pension purposes, to 2% or, the rate of inflation, whichever is lower. Unite, the trade union which represents some RBS employees, stated that "*against the backdrop of former chief executive Sir Fred Goodwin's bumper pension (a 16 million pound agreement), these planned changes add insult to injury to workers paying the price for a crisis for which they hold no responsibility.*"
- Australia's federal government grants environmental approval for the \$42 billion (U.S.) Gorgon development – one of the world's largest liquefied natural gas projects
- The Commerce Department reports U.S. new home sales rose by 9.6% to 433,000 units in July, following an upwardly revised increase of 9.1% to 395,000 units in June. These sales figures are significantly influenced by the current first-time home buyer tax credit which expires in November /09.
- Japan's Ministry of Finance reports that the value of goods exported fell by a seasonally adjusted 1.3% in July
- The Canadian Imperial Bank of Commerce (CIBC) reports a fiscal 3rd. quarter profit of \$434 million (CAD) compared with a \$71 million (CAD) profit in the same period a year ago. The CIBC also declares a quarterly dividend of 87 cents (CAD) per share
- Japanese computer manufacturer Fujitsu Ltd. plans to cut 1,200 jobs in its British IT services unit because of low revenues
- Timothy Lane, newest member of the Bank of Canada's governing council, comments that "*persistent strength*" in the Canadian dollar risks derailing Canada's fragile economic recovery by hurting exporters who hope to gain from nascent signs of life in the U.S. economy.

Neither direct intervention in the currency markets, nor the introduction of a quantitative easing program (creation of money to purchase government debt) is going to have a significant downward effect on the Canadian dollar. With the weak outlook for the U.S. economy likely to persist for a considerable period, the Canada bond yield curve still below the U.S. Treasury yield curve and the Canadian dollar not overvalued at \$0.92 (U.S.), any central bank intervention would only amount to pushing on a string. Moreover, it is a well documented fact that the Bank of Canada's record of currency interventions in the past have been exercises in mediocrity.

- Province of Alberta Finance Minister, Iris Evans, unveils a 1st. quarter budget update that predicts a



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deficit of \$6.9 billion (CAD) in the current fiscal year ending March 31 /10, citing a massive decline in energy royalties and income tax revenues. The government will continue to draw from its \$16 billion (CAD) Heritage Savings Trust Fund for infrastructure development and core services such as health care, education, policing and senior services.

- McGill University professor and economist, Chris Ragan, predicts that without changes to fiscal policy, Canada's federal, provincial and local government debt will swell into a "danger" zone greater than 60% of the country's gross domestic product (GDP) by 2015.

Thursday, August 27th.

- The Commerce Department reports that U.S. gross domestic product (GDP) contracted by an unrevised 1% annualized rate in the second quarter, following a 6.4% contraction rate in the first quarter
- The Labor Department reports that initial claims for state unemployment benefits declined by 10,000 to 570,000 in the week ended August 22nd. from a revised 580, 000 the week before. Continuing claims fell by 119,000 to 6.13 million in the week ended August 15th.
- TD Canada Trust reports a net profit of \$912 million (CAD) in the fiscal 3rd. quarter ended July 31st. representing a decline of 9% on a year-over-year basis
- The Royal Bank of Canada reports net income of \$1.6 billion (CAD) in the fiscal 3rd. quarter ended July 31st. representing a 24% increase from the same period a year ago
- The National Bank of Canada reports a net income of \$303 million (CAD) in the fiscal 3rd. quarter ended July 31st. representing a 6% increase from the same period last year, despite a \$24 million (CAD) charge relating to non-bank asset backed commercial paper (ABCP).
- Stanford Financial chief financial officer, James Davis, pleads guilty to 3 felony counts of fraud
- The Federal Deposit Insurance Corporation reports 416 "problem U.S. banks" in the 2nd. quarter, representing a 15-year high, with 28.3% of all American banks deemed unprofitable
- Canadian consumer confidence index rises in August to its highest level of the year
- Bank of China posts a 2.5% decline in first-half net profit to \$6.02 billion (U.S.)
- JP Morgan Chase lends \$1.5 billion (U.S.) to the State of California at a rate of 3%, enabling curtailment of the State's IOU issuance policy
- Toyota Motor will close its only unionized plant in the U.S. by March, 2010. Located in Fremont, California, the plant employs 4,700 workers and represents America's only remaining auto plant west of San Antonio, Texas. Toyota will move production to other plants in the U.S., Japan and Canada.

Friday, August 28th.

- Japan's unemployment rate rose to a record high 5.7% in July from 5.4% in June, while core consumer prices fell by a record 2.2% in July on a year-over-year basis
- U.S. personal income was unchanged in July from a revised minus 1.1% in June, previously reported as a minus 1.3%



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- Personal computer manufacturer, Dell Inc. reports a profit of \$472 million (U.S.) in the fiscal 2nd. quarter ended July 31st. versus a profit of \$616 million (U.S.) in the same period a year ago
- The Bank of Nova Scotia reports a net profit of \$931 million (CAD) in the fiscal 3rd. quarter ended July 31st. compared with a profit of \$1.01 billion (CAD) in the same period a year ago
- The U.K. gross domestic product (GDP) contracted by 0.7% in the 2nd. quarter following a 2.4% contraction in the 1st. quarter
- The U.K. Office for National Statistics (ONS) reports that business investment declined by 18.4% in the 2nd. quarter on a year-over-year basis, representing the largest 12-month drop since this statistic was first compiled in 1965.

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