

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

# THAT WAS THE WEEK THAT WAS



## Monday, August 31ST

European Union consumer prices decline by 0.2% in August

### MONDAY, AUGUST 31ST

- Canada's gross domestic product (GDP) contracted by 3.4% in the 2nd. quarter, but rose by 0.1% in June
- Chicago purchasing manager's index rose to a reading of 50 in August versus 43.4 in July
- Government of Canada plans a \$3 billion (U.S.) issue of 5-year bonds at a probable yield spread of 30 basis points over 5-year U.S. Treasury notes
- PetroChina International Investment Co. buys a 60% stake in privately-owned Athabasca Oil Sands Corp. for \$1.9 billion (CAD)
- Canada posts an international trade deficit of \$1.8 billion (CAD) in the 2nd. quarter
- Canadian Finance Minister Flaherty nominates himself as the authority for systemic oversight of Canada's financial system. Interestingly, Mr. Flaherty has finally awakened to the fact that the reason Canadian banks have fared better than their foreign counterparts during the recent credit crunch was because Canadian lending practices and leverage standards, legislated and established many decades ago, are much more strict and conservative than in other countries. Therefore, who better than Mr. Flaherty to serve Canada as the ultimate authority on banking oversight since the work has already been done?

- The Democratic Party of Japan wins the national election on the promise to reverse the country's long-term economic decline and redefine its relationship with the United States
- India's gross domestic product grew by 6.1% in the 2nd. quarter on a year-over-year basis

### TUESDAY, SEPTEMBER 1ST

- U.S. pending home sales rose by 3.2% in July
- The Province of British Columbia expects its budget deficit to reach \$2.8 billion (CAD) for fiscal year ending March 31 /10, followed by several years of deficits
- Ford Motor U.S. vehicle sales rose by 17% in August
- Australia's gross domestic product (GDP) expanded by 0.6% in the 2nd. quarter
- Buoyed by the U.S. government's "cash for clunkers" rebate program, Asian auto manufacturers posted their highest monthly sales for the year in August, with Toyota registering a 6.4% increase, Honda posting a 9.9% gain and Hyundai enjoying a 47% surge

- Fitch Ratings affirms South Korea's sovereign debt rating at A (High) and raises its credit rating outlook to stable from negative. Fitch affords this same rating to both Taiwan and China.
- General Motors Canadian vehicle sales decline by 27.5% in August on a year-over-year basis to 23,018
- Canada's Parliamentary Budget Officer, Kevin Page, warns that Ottawa "risks a policy drift towards higher deficits and debt if it doesn't set concrete targets this fall" for balancing its books and shrinking the national debt. "This is not a drift Canada can afford" Mr. Page states, noting as the large baby boomer generation starts to retire in 2011, Ottawa will face increasing pressures to spend more on health care when the generous 2004 federal-provincial health accord expires in a few years. In order to better inform Canadians, Mr. Page says the Finance Department should also divulge its own internal economic forecasts; data which it now keeps secret.
- The 16-nation European Union's unemployment rate rose to 9.5% in July from 9.4% in June
- Seasonally adjusted German unemployment declined by 1,000 to 3.48 million in August, while the unemployment rate remained unchanged at 8.3%
- Outstanding loans to companies and individuals in the U.K. both declined at a record pace in July, as private non-financial corporations paid down 8.4 billion pounds of debt and net lending to individuals fell by 600 million pounds to 1.45 billion pounds.
- The U.S. Institute for Supply Management's manufacturing index rose to a reading of 52.9 in August from a level of 48.9 in July

#### WEDNESDAY, SEPTEMBER 2ND

- ADP Employer Services reports that U.S. companies cut 298,000 jobs in August, following a revised 360,000 decline in July
- European consumer spending rose by 0.2% in the 2nd. quarter
- British Petroleum reports a 'giant' oil discovery which may exceed 3 billion barrels, at a total depth of 35,000 feet in the Gulf of Mexico

- Washington, D.C.-based Danaher Corp. a diversified manufacturing and technology company, announces restructuring initiatives to save \$220 million (U.S.) annually, involving 3,300 job layoffs and the closure of 30 facilities
- The Mortgage Bankers Association proposes that the U.S. Congress transform Fannie Mae and Freddie Mac into several smaller privately held companies which would issue mortgage securities carrying an explicit government guarantee
- U.S. factory orders rose by 1.3% in July following a revised increase of 0.9% in June
- Bombardier Inc. posts a net profit of \$202 million (US) in the 2nd. quarter compared with a profit of \$259 million (U.S.) in the same period a year ago, citing fewer airplane deliveries and lower margins
- Preliminary figures from Nielsen Ratings show a \$10 billion (U.S.) decline in American advertising revenues in the first half of 2009, representing a 15.4% drop on a year-over-year basis

#### THURSDAY, SEPTEMBER 3RD

- The U.S. Labor Department reports that initial claims for state unemployment benefits declined by 4,000 to 570,000 in the week ended August 29th. from a revised 574,000 the week before. Continuing claims rose by 92,000 to 6.234 million in the week ended August 22nd.
- The European central bank (ECB) keeps its key lending rate unchanged at 1%. ECB President Jean-Claude Trichet says that while some areas of the euro zone may be stabilizing, he foresees only a "very gradual (economic) recovery".
- U.S. retailers Gap Inc. and American Eagle Outfitters report a modest decline in August "back-to-school" sales compared to the same period a year ago
- The Organization for Economic Co-operation and Development (OECD) predicts that Canada's economy will be the worst performing among the Group of Seven countries (G7) in the current 3rd. quarter, contradicting the Bank of Canada's recent forecast for a return to GDP growth this quarter. The OECD is revising its economic forecast for the G7 to a 3.7% contraction rate for 2009.

- In a ruling for a 2008 lawsuit filed against ratings agencies Moody's Corp. and Standard & Poors by Abu Dhabi Commercial Bank and King County, Seattle; U.S. Southern District Court of New York Judge, Shira Scheindlin, rules that the debt ratings of certain securities (i.e. those that are distributed to a limited number of investors, such as structured investment vehicles, SIV's) don't deserve the same free-speech protection as more general ratings of corporate bonds that were widely disseminated. "Where a rating agency has disseminated their ratings to a select group of investors rather than to the public at large, the rating agency is not afforded the same (First Amendment) protection," the judge rules. Article 1 of the U.S. Bill of Rights states that "Congress shall make no law ... abridging the freedom of speech, or of the press".  
Judge Scheindlin's ruling could open the floodgates for investors to file class action lawsuits in the billions of U.S. dollars against rating agencies; alleging they were intentionally misled regarding investment grade ratings afforded to various issuers of SIV securities. American rating agencies are regulated by the U.S. Securities & Exchange Commission (SEC), however in Canada, the rating agencies remain unregulated.
  - The Labor Department reports that U.S. non-farm payrolls declined by 216,000 in August from a revised decline of 276,000 in July, previously reported as a drop of 247,000. The U.S. unemployment rate rose to 9.7% in August from 9.4% in July.
  - Statistics Canada reports that Canada's unemployment rate increased to 8.7% in August from 8.6% in July
  - Suncor Energy reports that it expects to announce 1,000 job layoffs as a result of its recent merger with Petro-Canada, citing its targets of reducing operating expenditures by \$300 million (CAD) and reducing capital spending by \$1 billion (CAD) in the current fiscal year
  - Air France announces 1,500 job layoffs
  - The U.S. Federal Reserve lends \$6.5 billion (U.S.) to investors from its Term Asset-Backed Loan Facility (TALF) in order to purchase securities backed by auto, credit cards and other types of consumer loans
  - According to a senior member of China's Communist hierarchy, Cheng Siwei, the U.S. Federal Reserve's policy of printing money to buy Treasury debt, known as quantitative easing, threatens to spark a serious decline of the U.S. dollar and to compel China to redesign its foreign policy
- FRIDAY, SEPTEMBER 4TH
- 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
  - Group of 20 countries (G20) finance ministers meet in London, England to discuss how and when economic stimulus packages and quantitative easing programs should be unwound. In a concluding communiqué, the G20 stated that "we remain cautious about the outlook for (economic) growth and jobs (creation) and are particularly concerned about the impact on many low-income countries. We will continue to implement decisively, our necessary financial support measures and expansionary monetary and fiscal policies".