

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE
THAT WAS THE WEEK THAT WAS



Monday, October 26th

The California Association of Realtors reports single family home prices fell by 7.3% in September compared to the same period a year ago. The median price for an existing detached house declined to \$296,090 (U.S.) from \$319,310 (U.S.).

MONDAY, OCTOBER 26TH

- ING Group, the largest Dutch financial services firm, plans to raise 7.5 billion euros, equivalent of \$11.3 billion (U.S.), through a rights offering and plans to sell its insurance units, as part of a corporate restructuring being filed with the European Commission. This plan will enable ING to gain approval for state aid in the form of a 10 billion euro cash injection and guarantees on 21.6 billion euros of mortgage assets.
- In a speech delivered in Montreal, Bank of Canada Governor Mark Carney warned that banks around the world would be unwise to bet against policy makers' resolve to overhaul the regulatory system after deploying hundreds of billions of dollars to save the financial system from banks' excessive risk taking. "The financial system must transition from its self-appointed role as apex of economic activity to once again be the servant of the real economy."
- The Province of Quebec declares that it will attempt to safeguard the remaining pension assets of 3,750 Nortel employees in the province, if their pensions are terminated while the company is under bankruptcy protection. National Assembly member Francois Ouimet stated, "What we're offering to Nortel's Quebec retirees is time, breathing room and hope for a turnaround, if ever their pension funds are terminated with a deficit that causes financial losses for those who have spent their entire lives building the company."
- Commenting on its \$2.27 trillion (U.S.) of foreign exchange reserves, the People's Bank of China declares that while the U.S. dollar should remain the dominant component, the percentages allotted to the euro and the yen should be increased
- Financial Times economics editor, Edmund Conway, writes "This U.K. recession just became a depression" citing the 0.4% decline in Britain's gross domestic product (GDP), reported for the 3rd. quarter ended September 30th. "This is now the longest technical recession (six consecutive quarters) since at least 1955 and most probably since the 1930s."
- In a New York Times article, Gretchen Morgenson reports "One surprising smackdown occurred on October 9th. in federal bankruptcy court in the Southern District of New York. Ruling that a lender, PHH Mortgage, hadn't proved its claim to a delinquent borrower's home in White Plains, N.Y., Judge Robert D. Drain wiped out a \$461,263 (U.S.) mortgage debt on the property" enabling the borrowers to stay in their home mortgage free.

TUESDAY, OCTOBER 27TH

- In the latest U.S. Conference Board survey of consumers, whose expenditures comprise 70% of the economy, consumer confidence declined to a reading of 47.7 in October from a level of 53.4 in September

- International Business Machines (IBM) Board of Directors authorizes a \$5 billion (U.S.) share repurchase plan
- The Province of Quebec projects a deficit of \$4.7 billion (CAD) for the fiscal year ending March 31, 2010
- VISA Inc. posts a net profit of \$514 million (U.S.) in its 4th. fiscal quarter compared to a net loss of \$356 million (U.S.) in the same period a year ago. The company also announced a \$1 billion (U.S.) share repurchase plan that will extend through September 30 /10.
- According to the National Post, Canada's federal government has decided not to proceed with its investment in the \$16.2 billion (CAD) Mackenzie Valley natural gas pipeline because the low price of natural gas renders the 1,220 kilometre project uneconomic, when deposits of a quadrillion cubic feet of shale gas from British Columbia, Texas and Louisiana are more accessible
- The Standard & Poor's/Case Shiller U.S. composite 20-city home price index rose to a seasonally adjusted 1.2% in August, but remains 11.3% lower than in the same period a year ago
- In an interview on Canadian Business News Network (BNN), Bill Gross, fixed income manager for Pacific Investment Management (PIMCO) warns that "It's obvious that the Federal Reserve's quantitative easing program will cease within the next three to four months. So, to the extent that's gone, then perhaps the upward influence in terms of those longer term Treasury (yields) will be felt more strongly in the next several quarters."
- Norway's central bank, Norges Bank, raises its key lending rate by 25 basis points to 1.5%, citing that "unemployment over the next few years will remain lower and wage growth somewhat higher than previously projected. This suggests higher inflation, indicating that the key policy rate ... will average 4.25% in 2012."
- National Australia Bank reports its net profit declined by 43% to \$2.59 billion (AUD) for the fiscal year ended September 30th. citing bad and doubtful debt charges had increased to \$3.8 billion (AUD) from \$1.5 billion the previous year
- The Bloomberg News Network reports that U.S. Senate Democrats plan to extend the \$8,000 (U.S.) tax credit for first-time homebuyers and allow benefits for some people who already own their homes
- U.S. durable goods orders rose by 1.0% in September on stronger demand for machinery, defense equipment and capital goods
- Data from the European Central Bank reveals that the M3 broad money supply has contracted over the last six months, while bank loans to the private sector in the eurozone declined by 0.3% from a year ago, raising fears of an economic downturn into a deflationary environment in 2010. The situation is even more dire in America, where M3 has contracted at an annual rate of 6.5% over the last three months, a pace not seen since the 1930s. U.S. bank loans have declined sharply since May. (See Winter Warning, October 19 /09 – All That Glitters Is Gold and Put Not Your Cart Before The Horse).

WEDNESDAY, OCTOBER 28TH

- U.S. new home sales declined by 3.6% in September to an annual rate of 408,000 units, versus a revised increase of 1% in August at an annual rate of 417,000 units. The September median home price was \$204, 800 (U.S.), down 9.1% from a year ago.
- U.S. Airways announces 1,000 job layoffs
- According to the Associated Press, Russia's Finance Minister, Alexei Kudrin, announces that the government is considering selling gold on world markets, in order to capitalize on high prices and offset its first budget deficit in a decade

THURSDAY, OCTOBER 29TH

- The Commerce Department reports that the U.S. gross domestic product (GDP) expanded by 3.5% on an annualized basis in the 3rd. quarter ended September. 30th. However, one-time stimulus or inventory items comprised 92% of the total growth reported and personal disposable income declined by 0.7%; neither of which bodes very well for GDP growth expectations in the 4th. quarter.
- The U.S. Labor Department reports that initial claims for state unemployment benefits fell by 1,000 to a seasonally adjusted total of 530,000 in the week ended October 22nd. Continuing claims, those drawn by workers for more than a week, declined by 148,000 to 5.8 million in the week ended October 15th. as a host of workers exhausted their unemployment benefits.
- Statistics Canada reports that Canadian non-farm payroll employment fell by 110,200 in August, an .08% drop from July, led by declines in the retail and education sectors
- Exxon Mobil Corp. reports its net profit declined by 68% to \$4.73 billion (U.S.) in the 3rd. quarter ended September 30th.
- West Fraser Timber closes a Kitimat, B.C. sawmill causing 535 job layoffs
- Standard & Poors downgrades the Province of Ontario's credit rating from 'AA' to 'AA' (Low)
- GMAC Financial Services Inc. and the U.S. Treasury Department are in advanced talks which would enable GMAC to receive government assistance of a \$2.8 billion (U.S.) to \$5.6 billion (U.S.) capital injection; in addition to the \$12.5 billion (U.S.) that GMAC has received since December, 2008. This latest infusion would take the form of convertible preferred stock, so the government's 34% stake in the company could increase if existing shares are eventually, converted into common equity.
- Royal Dutch Shell announces 5,000 job layoffs as part of a restructuring plan begun earlier this year

FRIDAY, OCTOBER 30TH

- Chevron Corp., America's second largest energy company, reports net income declined to \$3.83 billion (U.S.) in the 3rd. fiscal quarter from \$7.89 billion (U.S.) a year ago, citing reduced fuel and lower prices for oil and natural gas
- The Commerce Department reports that U.S. consumer demand declined by 0.5% in September, citing the expiration of the government's auto rebate program, cash-for clunkers, which resulted in relatively few additional car sales
- The Chicago Purchasing Manager's Index (PMI) rose to a reading of 54.2 in September from 49.0 in August
- Japan's Statistics Bureau reports that core consumer prices (ex-fresh food) declined by 2.3% in September compared to the same period a year ago, after falling a record 2.4% in August
- According to Eurostat, the European Union's statistical office, the eurozone's unemployment rate edged higher to 9.7% in September from 9.6% in August
- The Reuters / University of Michigan consumer sentiment index declined to a reading of 70.6 in October, compared to a level of 73.5 in September.
- According to the Washington Post, CIT Group, a major lender to thousands of small businesses, is preparing to file for Chapter 11 bankruptcy protection as early as Sunday; which will likely eradicate the federal government's \$2.3 billion (U.S.) stake in the company. A CIT bankruptcy filing represents one of the largest in American history, since the company has \$71 billion (U.S.) in financing and leasing assets, against a total debt load of \$64.9 billion (U.S.). CIT reports that bondholders can opt for a prepackaged reorganization plan which would reduce total debt by \$10 billion (U.S.), permit the company to continue to do business and allow it to exit court protection within 60 days.