

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



Monday, January 4TH

According to the National Bankruptcy Center, U.S. personal bankruptcy filings reached 1.41 million in 2009, representing an increase of 32% over 2008, largely driven by home foreclosures and job losses

MONDAY, JANUARY 4TH

- The Institute for Supply Management reports its U.S. manufacturing index rose to a reading of 55.9 in December from a level of 53.6 in November
- The Commerce Department reports U.S. construction spending declined by 0.6% in November, following a downwardly revised decline of 0.5% in October
- According to Markit Economics, the Purchasing Manager's Index (PMI) for the eurozone's factory sector rose to a reading of 51.6 in December from a level of 51.2 in November
- At a weekend annual meeting of the American Economic Association, economists were focused on U.S. Government debt and deficits. Roger Altman, chairman of the investment firm Evercore Partners and an assistant Treasury secretary in the late 1970s, remarked that "At some point, if the U.S. does not address proactively, its deficit outlook and its debt outlook, there will be a financial market revolt ... if we let this go past 2012, we're playing with fire."
- Pimco, one of the world's biggest bond funds with \$940 billion (U.S.) under management, warns that the record levels of government bond issuance in the U.S. and U.K. and "the end of loose money" will put financial markets under intense pressure. Paul McCulley, managing director of Pimco identified rising government bond supply and the end of central bank quantitative easing as the key reasons for reducing exposure to U.K. "gilts" and U.S. Treasuries.
- China's manufacturing activity accelerated in December at its fastest pace in several years. The HSBC purchasing manager's index rose to a reading of 56.1 for the month, compared to a level of 55.7 in November.
- According to Orin Kramer, the chairman of New Jersey's pension fund, the U.S. public pension system faces a higher than expected shortfall in excess of \$2 trillion (U.S.) that will increase pressure on many states' strained finances and crimp economic growth. Mr. Kramer cited "State and local governments are correctly perceived to be in serious (financial) difficulty. If you factor in the reality of these unfunded promises, their deficits will rise exponentially."

TUESDAY, JANUARY 5TH

- Iceland's President, Olafur Grimsson, refuses to sign into law a bill to compensate British and Dutch depositors for \$5.7 billion (U.S.) in losses from the collapse of Icesave, a popular internet bank forcing the issue to a referendum and creating renewed financial turmoil in the crisis-prone country. The President's rejection of the unpopular bill puts potential aid from Scandinavian countries and Iceland's aspirations to join the European Union, in serious jeopardy. Accordingly, Fitch Ratings downgraded Iceland's credit rating to 'BB' (High) junk status and Standard & Poors placed Iceland on credit watch with a negative outlook.
- Canadian raw material prices rose by 2.2% in November

- Standard & Poors downgrades Manulife Financial's credit rating to 'A' (High) from 'AA' (Low), citing that "although the (corporate) reorganization results in many benefits to Manulife, including increased capital and operational efficiency, it's our opinion that the reduced diversification increases the potential for reduced cash flows to Manulife during severe or extreme (economic) stress events
- General Motors reports a 5.7% decline in light vehicle sales in December, while Chrysler's sales fell by 3.7%. Meanwhile, Ford's sales soared by 33% and Toyota's sales rose by 22%.
- The National Association of Realtors reports a 16% decline in U.S. pending home sales in November, citing potential buyers delayed purchases while awaiting the extension of the first-time buyer tax credit
- The Labor Department reports that 17 of 372 U.S. metropolitan areas surveyed suffered unemployment rates of at least 15% in November, versus 15 metropolitan areas in October

WEDNESDAY, JANUARY 6TH

- The ADP employment report reveals that private sector firms in the U.S. eliminated 84,000 jobs in December, the 23rd. consecutive monthly decline. In November, a revised 145,000 private sector jobs were lost, compared with the 169,000 originally reported.
- Britain warns Iceland that it could be blocked from European Union membership, after its president refused to authorize the repayment of \$5.7 billion (U.S.) in loans from Britain and the Netherlands.
- European Union (EU) officials arrive in Greece for an inspection visit, after European Central Bank (ECB) board member Juergen Stark was quoted as saying: "The markets are deluding themselves when they think at a certain point the other (EU) member states will put their hands on their wallets to save Greece."
- Japanese Prime Minister Yukio Hatoyama appoints his deputy, Naoto Kan, as Japan's Finance Minister, following the resignation of 77-year old Hirohisa Fujii, citing health reasons
- Nationwide Building Society's consumer confidence index declined to a reading of 69 in December from a level of 74 in November, citing U.K. consumers are facing a year of economic uncertainty in 2010

THURSDAY, JANUARY 7TH

- The Labor Department reports initial claims for U.S. state unemployment benefits increased by 1,000 in the week ended January 2nd., while continuing claims declined by 179,000 to 4.8 million in the week ended December 26th.
- The Nelson A. Rockefeller Institute of Government reports that U.S. state tax collections declined by 13.3%, or by \$80 billion (U.S.) in the first three quarters of 2009, compared to the same period in 2008
- California Governor Arnold Schwarzenegger and New York State Governor David Paterson declare their state deficits for the next year will total \$20 billion (U.S.) and \$8 billion (U.S.), respectively
- A European Union inspection team has asked Greece for a more specific three-year plan to bolster the country's tax revenues. A senior Greek government official stated that "They asked us to quantify the results of the (budget) measures and to include these in the stability plan." Greek officials said that the EU team was particularly interested in Greece's budget and current account deficits, also asking for a more specific timetable of when the measures would begin to show results.
- The Bank of England leaves its key lending rate unchanged at a record low 0.5% and confirms no change in its 200 billion pound (\$320 billion U.S.) monetary stimulus program. Howard Archer, economist at HIS Global Insight, comments that "with sustainable, significant (economic) recovery very far from guaranteed, any (monetary policy) tightening still looks a long way off and we expect interest rates to stay down at 0.5% until at least late in 2010."
- In a speech to an economic conference, French President Nicolas Sarkozy declared since "the monetary disorder in the world has become unacceptable ... and France will bring it up when it presides at the G8 and G20 (economic summit meetings) in 2011. There cannot be financial, economic and social order until we put an end to currency disorder."
- The People's Bank of China hints that its priorities are shifting towards managing inflation expectations and away from single-mindedly supporting economic growth, by allowing a 4 basis point yield increase to 1.3684% in this week's 3-month treasury bill auction

- At his initial news conference, Japan's new finance minister, Naoto Kan, said he wants the Japanese yen to weaken further and that he would co-operate with the Bank of Japan to guide the yen exchange rate to "appropriate" levels

FRIDAY, JANUARY 8TH

- The Labor Department reports U.S. non-farm payrolls declined by 85,000 in December, following a revised gain of 4,000 in November. The unemployment rate remained unchanged at 10%.
- UPS Inc., the world's largest package delivery company, announces 1,800 management and administrative job layoffs, in order to streamline operations in its U.S. package sector
- The Government of Canada raises 2 billion euros via a sale of bonds which reportedly was oversubscribed fivefold, with demand mostly emanating from European and Asian investors
- U.S. consumer credit declined by a record \$17.5 billion (U.S.) in November, following a revised drop of \$4.2 billion in October
- Foot Locker Inc. announces the closure of 117 stores and 120 job layoffs amid a corporate reorganization plan
- The New York Federal Reserve purchased \$12 billion (U.S.) of agency mortgage-backed securities in the week ended December 31st., which brought total purchases to approximately, \$1.123 trillion (U.S.) for 2009 and which will be capped at \$1.25 trillion (U.S.) by March 31, 2010

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