

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



Monday, May 17TH

General Motors reports a profit of \$865 million (U.S.) in the 1st. quarter, citing a domestic rebound in demand and improving results in emerging markets such as China

MONDAY, MAY 17TH

- The Canadian Real Estate Association (CREA) reports the price for an average home in Canada was \$344,968 in April, 12.2% higher than the average price a year ago; while 99,901 were listed for sale, a new monthly record
- The Toronto Dominion Bank announces its purchase of Greenville S.C.-based South Financial Group for \$192 million (U.S.), adding 176 branches to TD's system mainly in South Carolina and Florida
- According to Spain's El Pais newspaper, at a Brussels meeting of European leaders deciding Greece's aid package a week ago, France's President Nicolas Sarkozy demanded a "commitment from everyone to support Greece ... or France would reconsider its position in the Euro. This forced (German Chancellor) Angela Merkel to give in and reach an agreement."
- In a weekend speech to the German Federation of Trades Unions, German Chancellor Angela Merkel warned that a \$1 trillion (U.S.) European Union rescue plan had only bought the euro zone time to tackle its fundamental problem – a huge gap between its strongest and weakest economies. "We've done no more than buy time for ourselves to clear up the differences in competitiveness and in budget deficits of individual euro zone countries. If we simply ignore this problem, we won't be able to calm down this situation."

TUESDAY, MAY 18TH

- The Commerce Department reports U.S. housing starts rose by 5.8% in April on an annualized basis to 672,000 units, versus a 5% increase in March to 635,000 units; while building permits rose by 11.5% in April compared with 5.4% increase in March
- The Labor Department reports the U.S. producer price index declined by 0.1% in April compared with an increase of 0.7% in March, citing lower prices being paid to factories and farmers. The core rate, excluding food and energy, rose by 0.2% in April versus an increase of 0.1% in March.
- Drug manufacturer Pfizer announces 6,000 job layoffs, or 18% of its work force, and the closure of 8 manufacturing plants over the next 5 years, as it pares operations following the purchase of its smaller rival Wyeth last year
- In a letter to Charlie Parker, the Speaker of the Nova Scotia Legislature; Auditor General Jacques Lapointe reports: "Based on the results of my investigation, I believe four former members and one current member of the house of assembly may have committed illegal acts related to their constituency expense claims. Accordingly, we referred our investigation files for these five individuals to the RCMP for criminal investigation."
- Home Depot reports a profit of \$725 million (U.S.) in its 1st. fiscal quarter ended May 2nd. citing strength in seasonal item sales and improved profit margins

- Wal-Mart Stores Inc. reports a profit of \$3.32 billion (U.S.) in the 1st. fiscal quarter ended April 30th. compared with a profit of \$3.02 billion (U.S.) in the same period a year ago
- In a unanimous 94-0 vote, the U.S. Senate approves an amendment to the impending financial regulatory bill, requiring the Obama administration to certify that any future loans to foreign governments made by the International Monetary Fund (IMF) would be fully repaid. Without such certification, American representatives to the IMF must oppose the loan.
How can any U.S. administration be expected to provide such a guarantee? Prithee! Who will ultimately, provide a bailout package for America?
- The Office for National Statistics reports the U.K. annual inflation rate rose to 3.7% in April, following a level of 3.4% in March
- Citing a growing budget shortfall, the University of California unveils plans for a sweeping financial and administrative overhaul that could reduce annual operating expenses by more than \$500 million (U.S.). Under an efficiency plan, to be tabled at a Board of Regents meeting, the public university system intends to streamline, consolidate and standardize operations across its 10 campuses.
- Bafin, Germany's financial regulator, announces a 14-month ban on naked short selling of euro zone sovereign bonds and credit default swaps; as well as the common shares of a group of 10 leading German financial institutions. Bafin warned the ban was needed because of the "exceptional volatility" in euro zone bonds and the considerable widening of spreads on credit default swaps. Bafin added: "Large-scale short-selling could have endangered the stability of the entire financial system."
- The Forest Products Association of Canada (FPAC) and nine leading environmental groups announce the Canadian Boreal Forest Agreement, which will protect millions of hectares of forest, as well as the woodland caribou, while permitting sustainable forestry practices to continue. The boreal forest is the northern treed region that adjoins the tundra along the Arctic tree line and its southern reaches are particularly valuable ecologically, providing habitat for threatened wildlife and the absorption of carbon dioxide from the atmosphere. In a statement, Avrim Lazar, President and chief executive officer of FPAC, commented: "It's gratifying to see (that) nearly a decade of industry transformation and hard work (of) greening our operations, is culminating in a process that will be the envy of the world."

- The Federal Reserve reports the Empire State (New York) Manufacturing Survey employment index rose to a reading of 22.37 in May, marking five consecutive months of hiring growth

WEDNESDAY, MAY 19TH

- The Labor Department reports the U.S. consumer price index declined by 0.1% in April, citing lower prices for energy, clothing and household furnishings. The core inflation rate, which excludes food and energy, was unchanged from March.
- H&R Block announces 400 job layoffs and the closure of 400 underperforming tax preparation offices, as part of a corporate restructuring which will save the company \$150 million (U.S.) per year
- In reaction to Germany's unilateral move to ban naked short selling of certain investment securities yesterday, Michel Barnier, the European Commission's internal market commissioner, commented: "These (German) measures will be even more efficient if they are coordinated at the European level. It is important that member states act together and that we design a European regime to avoid regulatory arbitrage and fragmentation both within the European Union (EU) and globally."
- Long time writer of the Dow Theory Letters, Richard Russell, warns: "If I read the stock market correctly, it's telling me there is a surprise ahead. That surprise will be a reversal to the downside for the (U.S.) economy, plus a collection of other troubles ahead. If the Dow Jones Industrial and Transportation averages violate their May 7th. lows on a closing basis; 10,380.43 and 4,298.12 respectively, that would signal a certain resumption of a primary (bear) stock market."

THURSDAY, MAY 20TH

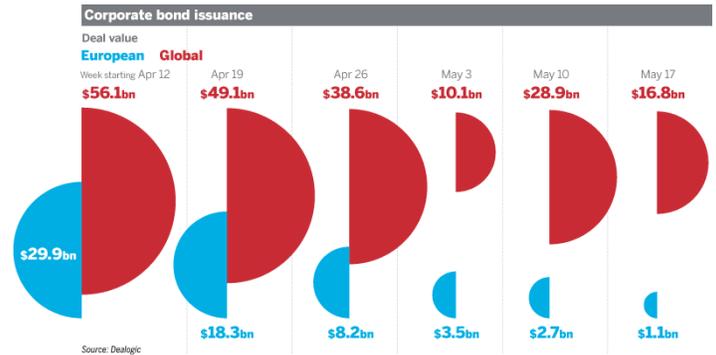
- Japan's preliminary gross domestic product (GDP) rose by a seasonally adjusted annual rate of 4.9% in the 1st. quarter
- The Labor Department reports U.S. initial claims for state unemployment benefits rose by 3,000 to 471,000 in the week ending May 15th. while continuing claims remained basically unchanged at 4.625 million in the week ended May 8th.
- By a vote of 59-49, the U.S. Senate approves a sweeping overhaul of Wall Street regulation that would create a consumer protection agency, strengthen oversight of derivative trading and ban proprietary trading at banks.

- The New York-based Conference Board's index of U.S. leading economic indicators declined by 0.1% in April
- A total of 775 U.S. banks, or 10% of all American banks, were on the Federal Deposit Insurance Corp.'s list of "problem" institutions during the 1st quarter, as bad loans in the commercial real estate market negatively impacted bank balance sheets. The FDIC reported that poor loan performance in other sectors also continued to hurt banks, with the total number of outstanding loans, at least three months past due, climbing for the 16th consecutive quarter. FDIC Chairman, Sheila Bair, commented: "The banking system still has many problems to work through, and we cannot ignore the possibility of more financial market volatility."
- In testimony before the House Financial Services Committee, Daniel Turillo, who was President Obama's first appointment to the Federal Reserve's Board of Governors, warns that Europe's debt problems could amount to a "significant external shock" to the United States economy because another "credit crisis was not out of the question. In a worst case scenario, such (European) turmoil could lead to a replay of the freezing up of financial markets that we witnessed in 2008." While the United States is "in a very different position" than the debt-stricken countries, "their experience is another reminder, if one were needed, that every country with sustained budget deficits and rising debt, including the United States, needs to act in a timely manner to put in place a credible program for sustainable fiscal policies." Economic understatement of the week.

FRIDAY, MAY 21ST

- Statistics Canada reports retail sales rose by 2.1% in March to \$37 billion (CAD), citing higher sales of automobiles and automotive parts.
- Both Houses of Parliament in Germany approve the country's maximum contribution of 147.6 billion euros (\$184.7 billion U.S.) to the 750 billion euro bailout, from European Union (EU) countries and the International Monetary Fund (IMF), for EU states on the verge of default

- According to Dealogic, new corporate bond issuance has collapsed in Europe in recent weeks due to concerns over the euro zone's sovereign debt worries and the disjointed political response to the euro's gravest crisis in its 11-year existence. The volume of corporate bond new issues has steadily declined to \$1.1 billion (U.S.) within the last month, culminating in Germany's declaration last week to ban naked short selling of euro zone sovereign bonds and credit default swaps.



- Following a panel discussion about Greece's sovereign debt crisis, sponsored by the Greater Washington Board of Trade, Angelos Pangratis, head of the EU delegation to the U.S. commented: "If what happened (recently) in Greece were to happen in a large country, it could fundamentally mark our times." Correspondingly, Cornell University economist Eswar Prasad observed that despite the combined economies of Greece, Spain, Portugal and Ireland only representing about 4% of world economic activity, "the (sovereign) debt crisis and its ripple effects are bad news for all corners of the world." Economic understatements seem to be the order of the day!

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