Monday June 21st, 2010

LONGWAVE group

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS

Monday, June 21ST

In a complaint filed in the Southern District of New York, the Securities and Exchange Commission (SEC) accuses ICP Asset Management of defrauding investors in four complex mortgage transactions named Triaxx

MONDAY, JUNE 21ST

- According to the Washington Post, the financial crisis facing the City of Harrisburg, Pa. has been precipitated by a malfunctioning municipal incinerator, whose ill-fated expansion was promoted as a potential moneymaker. "After seven years of cost overruns, construction delays, design problems, financings and several refinancings, the City is facing a $68 million (U.S.) bill as part of $288 million (U.S.) in outstanding debt related to the project. Now there are only unpleasant options: steep tax increases, severe layoffs, crippling service cuts and even bankruptcy." According to a recent report from the U.S. Federal Reserve, the obligations of state and local governments have doubled in the last decade to $2.4 trillion (U.S.), a figure that excludes more than $1 trillion (U.S.) in unfunded pension and retiree health care liabilities.
  (See also Winter Warning, June 14, 2010 – The Long Wave Winter Monetary Crisis)

NATHANIEL V. KELSO/THE WASHINGTON POST

- Ahead of this weekend's G-20 economic summit in Toronto, the People's Bank of China announces it may allow a modest appreciation of the yuan against the U.S. dollar. The Bank announced a stronger yuan will help curb inflation in the world's third largest economy and shift investment towards "service industries from export manufacturing."

- A report by Fitch Ratings warns that although the risk of a euro zone break-up is low over the short to medium term, further episodes of "extreme market volatility" are likely to persist until the economic recovery and deficit reduction are secured in the region. The agency's report states the recent sovereign debt crisis in the euro zone and "investor concerns over the sustainability of the region" arose because of the existence of the following:

  1) Economic imbalances
  2) Skepticism over the ability of the economies within the euro zone to adjust in the absence of monetary and exchange rate flexibility
  3) Concerns about fiscal solvency given large fiscal deficits and weak economic growth prospects
  4) Doubts over the political commitment to the euro zone in the aftermath of the hesitant and reluctant support given to Greece

- In its semi-annual review of Canada's financial system, the Bank of Canada's governing council warns the "near-term risks to the country have increased because of heightened concerns that worldwide fiscal strains have the potential to cause tensions in interbank funding markets, to derail the global economic recovery, or to trigger a disorderly resolution of global imbalances." Policy makers stated the level of risk has increased in three of five categories, namely: funding and liquidity; the imbalances in the global economy that exacerbated the financial crisis of 2008; and the current economic outlook.

TUESDAY, JUNE 22ND

- White House Budget Director Peter Orszag resigns his post, becoming the most senior official to leave the Obama administration to date, partly in frustration over his failure to persuade the Obama administration to attack the U.S. fiscal deficit more aggressively; according to informed sources. For example, Lawrence Summers, the Chairman of the Economic Council, has continued to stress the need for short-term spending increases to counteract the anemic economic recovery in the U.S. Moreover, Mr. Orszag has, specifically collided with Rahm Emanuel, President Obama's Chief of Staff over Mr. Obama's 2008 election campaign pledge not to raise taxes on any households earning less than $250,000 (U.S.) a year – a category that includes more than 98% of Americans. Apparently, Mr. Orszag feels strongly that this is a pledge which must be broken if the President is to assume a leading role regarding America's fiscal crisis. Mr. Orszag informed the Financial Times: "I want to emphasize that it would be inaccurate to say that I have told the President, personally that I'm leaving because of concerns about our fiscal policy. We had historical successes in bringing the economy back from the brink of a potential depression; and in beginning the difficult shift toward a better health care system. It is true that the nation still faces important fiscal challenges over the medium and long term, which was the motivation behind the President's creation of the fiscal commission. The President has made it clear to the economic team that he is seriously committed to tackling our fiscal problems; and I look forward to continuing to support him and my colleagues in the ongoing effort to put the nation back on a sustainable fiscal course."

- The National Association of Realtors reports U.S. existing home sales declined by 2.2% in May to a seasonally adjusted annual rate of 5.66 million units, versus an increase of 8% in April

- Statistics Canada reports the country's annual inflation rate declined to 1.4% in May from 1.8% in April, while the core rate (excluding food and energy) declined to 1.8% from 1.9%

- U.K. Chancellor of the Exchequer George Osborne announces spending cuts and tax increases totaling 40 billion pounds ($59 billion U.S.) a year by 2015, in a budget that aim's to eliminate the country's structural deficit by the end of the current parliament. The Chancellor stated it was an "unavoidable budget" and that promises of early action to cut the deficit had earned the U.K. credibility in international markets: "Unless we now deliver on that promise of action with concrete measures, that credibility so hard won in recent weeks will be lost."

WEDNESDAY, JUNE 23RD

- In a statement at the end of its two-day meeting, the Federal Reserve Open Market Committee (FOMC) left the federal funds rate unchanged in the 0% – 0.25% range, maintaining its commitment to keep "exceptionally low levels of the federal funds rate for an extended period. Financial conditions have become less supportive of economic growth on balance, largely reflecting developments abroad" (read Europe).

- Statistics Canada reports Canadian retail sales declined by 2% in April, citing weakness in auto and apparel sales

- In a speech to the Economic Club of Washington, Ivan Seidenberg, Chairman of the Business Roundtable, accused President Obama and Democratic lawmakers of creating an "increasingly hostile environment for investment and job creation. Democrats in Washington are pursuing tax increases, policy changes and regulatory actions that together threaten to dampen economic growth and harm our ability to grow private sector jobs in the U.S. By reaching into virtually every sector of economic life, government is injecting uncertainty into the marketplace and making it harder to raise capital and create new businesses."

- U.S. House of Representatives majority leader Steny Hoyer announces House Democrats will not pass a budget this year, failing to fulfill what he has termed "the most basic responsibility of governing." According to the Associated Press, Mr. Hoyer further stated that tax increases will eventually be necessary to address the nation's mounting debt. Mr. Hoyer also raised the possibility that Congress will only temporarily extend middle-class tax cuts set to expire at the end of the year, because making them permanent would be too costly.
  In the meantime, the U.S. national debt continues to race ahead at the gallop and now exceeds $13.15 trillion. By the year 2014, given the annual deficit projections of the Congressional Budget Office (CBO), 28 cents of every dollar of federal government revenue will go to service the national debt, even if today's low level of interest rates still prevail at that time.

- The Commerce Department reports U.S. new home sales declined by 32.7% in May to a seasonally adjusted annual rate of 300,000 units, versus a downwardly revised gain of 14.7% in April of 446,000 units, citing expiration of the 8% federal subsidy for first-time home buyers

THURSDAY, JUNE 24TH

- Julia Gillard, new leader of the Labor Party and now Australia's Prime Minister, indicates a speedy reshaping of the contentious 40% resources tax by stressing the need for certainty: "I am not going to talk parameters (of the tax) but the door is open and I am asking the mining industry to open its mind." Global miner BHP Billiton announced it was encouraged by Ms. Gillard's comments and would look forward to working with the government to find a solution.

- The Commerce Department reports U.S. durable goods orders declined by 1.1% to a seasonally adjusted $192.01 billion (U.S.), citing a 30% drop in orders for non-defense aircraft and parts

- Ahead of this weekend's G-20 economic summit in Toronto, German Chancellor Angela Merkel defends her government's plan to save 80 billion euros ($100 billion U.S.) by 2014 as growth-oriented and dismisses American concerns that German budget cuts threaten the global economic recovery. Ms. Merkel noted that Germany's 2010 budget was still promoting growth as stimulus measures were taking effect "doing a lot more for reviving the world economy" than most other countries. German Finance Minister Wolfgang Schaeuble also defended the government's decision to reduce spending by emphasizing that governments "should not become addicted to borrowing as a quick fix to stimulate demand."
  Herr Schaeuble: Consider this a wake-up call – America is already hopelessly addicted.

- In its semi-annual Financial Stability Report, the Bank of England warns the U.K.'s economic recovery is at risk if the nation's banks do not act swiftly to raise the 750 billion to 800 billion pounds, required to refinance their outstanding bond issues maturing by the end of 2012. The report notes that U.K. banks have greater refinancing requirements over the next two years than banks based in Germany, Italy, France, or the United States: "There's a risk (that) banks alleviate their own funding pressures by further constraining credit conditions for customers. That (scenario) would dent economic recovery and so raise credit risk for all banks."

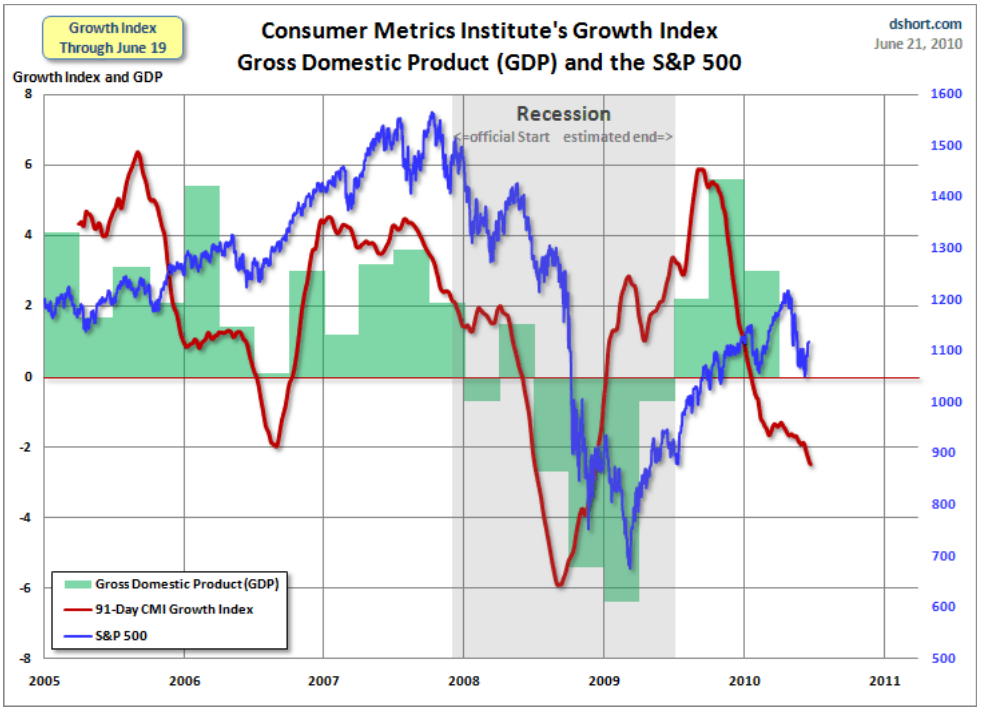
- The Labor Department reports U.S. initial claims for state unemployment benefits declined by 19,000 to 457,000 in the week ended June 19th.while continuing claims declined by 45,000 to 4.55 million in the week ended June 12th. While the number of people receiving unemployment insurance fell, those receiving extended benefits increased.

FRIDAY, JUNE 25TH

- House of Representatives and Senate lawmakers approve the most significant increase in the regulation of U.S. banks since the Great Depression, placing new restrictions on the nation's biggest lenders, reining in the Federal Reserve and creating new consumer protections

- The Thomson Reuters / University of Michigan index of U.S. consumer confidence increased to a reading of 76 in June from a level of 73.6 in May

- The Commerce Department reports U.S. gross domestic product (GDP) grew at a 2.7% annual rate in the first quarter, less than the 3% previously estimated, citing a smaller increase in consumer spending and a larger trade deficit. Recent U.S. economic data, from home sales to retail sales, has been weak, as the impact of government stimulus packages is spent. Indeed, various U.S. leading economic indicators compiled by the Economic Cycle Research Institute (ECRI) and the Consumer Metrics Institute (CMI) have turned sharply negative over the last several weeks, as delineated in this recent CMI growth index chart below:



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