

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



Monday, September 6TH

Labour Day Holiday in Canada and the U.S.

TUESDAY, SEPTEMBER 7TH

- Australia's Prime Minister Julia Gillard announces the Labour Party has mustered the 76 seats in Parliament to form a minority government, ending several weeks of political uncertainty
- Both the Bank of Japan and the Reserve Bank of Australia warn that the outlook for U.S. economic (GDP) growth looks "weaker" in the second half, making it more difficult for them to set monetary policy. Mitul Kotecha, global head of foreign exchange strategy at Credit Agricole CIB in Hong Kong commented: "For Australia and Japan, (since) the Chinese economy is more important, the bigger focus is whether China's (GDP) slows more than expected, but they can't ignore a slowing in the U.S. economy."
- According to Manpower Canada's quarterly survey, 70% of Canadian companies anticipate no change in staffing levels during the October to December quarter. Most economists expect further hiring will be muted, as employers wait for more evidence of a sustained (economic) recovery before adding to payrolls.
- Protesting French unions challenge President Nicolas Sarkozy with a major nationwide strike over the Government's plan to raise the retirement age from 60 to 62, shutting down trains, planes, buses, subways, post offices and schools. Across the English Channel, millions of workers struggled to get to work, as a strike by London Underground employees closed much of the city's subway system. It is the first of several 24-hour strikes planned for the fall.

- The Economy Ministry in Berlin reports German factory orders declined by 2.2% in July from June, citing weaker demand from the euro region

WEDNESDAY, SEPTEMBER 8TH

- Ireland's government announces it will split nationalized lender Anglo Irish bank into two separate businesses, in an effort to minimize the cost to taxpayers of bailing out the failed firm. Anglo Irish will be split into a "funding bank" to hold deposits and an "asset recovery bank" which will focus on retrieving loan assets that aren't being transferred to the National Asset Management Agency – a government agency created to acquire non-performing construction and property loans. While the "funding bank" will not engage in any new lending, the "asset recovery bank" will eventually be sold or discontinued.
- Four months after the 110 billion euro (\$140 billion U.S.) bailout for Greece, the full details of secret financial transactions the country used to conceal government debt levels, have yet to be disclosed. In a recent interview at his Luxembourg office, Walter Radermacher, a director general of the European Union's statistics agency Eurostat, vowed: "We have not seen the real documents, but Eurostat officials will travel to Greece this month to determine a solid estimate" of the total value of Greek government debt hidden by opaque contracts.

- Statistics service ELSTAT reports Greece's gross domestic product (GDP) declined at an annual rate of 3.7% in the second quarter. Diego Iscaro, an analyst at IHS Global Insight commented: "The second half of the year will be worse, that is when the full impact of austerity measures will be felt."
- Bank of Canada Governor Mark Carney raises the Bank Rate by 25 basis points to 1%, citing while borrowing conditions in Canada remain "exceptionally stimulative, any further reduction in monetary stimulus would need to be carefully considered in light of the unusual uncertainty surrounding the (global economic) outlook."
- In its periodic Beige Book economic survey, the U.S. Federal Reserve cites: "Reports from the twelve Federal Reserve Districts suggested continued (economic) growth in national economic activity during the reporting period of mid-July through the end of August, but with widespread signs of a deceleration compared with preceding periods. Economic growth at a modest pace was the most common characterization of overall conditions" within seven Districts. However, the "Districts of New York, Philadelphia, Richmond, Atlanta and Chicago all highlighted mixed conditions, or a deceleration in overall economic activity."
- Goldman Sachs Group has agreed to a fine of nearly 20 million U.K. pounds, or \$31 million (U.S.) as part of an investigation by the Financial Services Authority (FSA) in London. Goldman has conceded that it made an error in its registration of Fabrice Tourre, a London-based trader who was sued by the Securities and Exchange Commission (SEC) for allegedly cheating investors in a collateralized debt obligation (CDO) security called Abacus 2007-AC1.
- The Congressional Budget Office (CBO) reports the U.S. Government deficit totaled \$1.3 trillion (U.S.) over the first eleven months of the current fiscal year ending September 30th; on a pace to total \$1.418 trillion (U.S.) for the entire fiscal year. The CBO stated that "relative to the size of the economy, this year's deficit is expected to be the second largest shortfall in the past 65 years: at 9.1% of GDP. The deficit will be exceeded only by last year's deficit of 9.9% of GDP."
- The Province of Ontario launches a \$1.25 billion (U.S.) issue of 5-year bonds yielding 1.875% at a spread of 45 basis points over comparable U.S. Treasuries
- In a speech at Cuyohoga Community College in Parma, Ohio, U.S. President Obama outlines plans – to enhance and permanently extend the research and experimentation tax credit; to allow businesses a 100% tax credit for their investments through 2011 and inject another \$50 billion (U.S.) of infrastructure spending into the economic mainstream. However, White House officials, business advocates and Republicans were skeptical the measures would pass in the three or four weeks that Congress has left, before members leave Washington for the fall mid-term election campaigns.
- The California Assessors Association reports total real property assessment rolls declined this year in 13 of California's 15 most populous counties. For some counties, this was the third consecutive year of declining values. The nominal 2.4% decline in assessed values in Silicon Valley was the first drop caused by market forces since the 1930s. The roll declined by \$7.4 billion (U.S.), or 2.43% to \$296.5 billion (U.S.). Larry Stone, the Santa Clara County assessor noted: "Not since the Great Depression has Santa Clara County experienced an absolute decline in property tax revenue due exclusively to market forces." The latest real estate sales data suggest these declines may continue into 2011 and even beyond.

THURSDAY, SEPTEMBER 9TH

- The Labor Department reports U.S. initial claims for state unemployment benefits declined by 27,000 to 451,000 in the week ended September 4th. while continuing claims declined by 2,000 to 4.48 million in the week ended August 28th.
- The Bank of England's Monetary Policy Committee maintains its key lending rate at 0.5% and its target level for bond holdings unchanged at 200 billion pounds (\$308 billion U.S.)
- Norway's \$450 billion (U.S.) Government Pension Fund Global has recently increased its holdings of Greek debt; as well as bonds of Spain, Italy and Portugal. Norway's finance minister Sigbjørn Johnsen supports the investment strategy citing: "Norway has taken the view that Greece's sovereign debt will not default and the Greek holdings are particularly interesting because the consensus in the market is that they will, at some point, restructure or default."

- The Commerce Department reports the U.S. trade deficit declined by 14% to \$42.8 billion (U.S.) in July from \$58.8 billion (U.S.) in June citing, higher sales of jetliners, industrial machinery, computers and telecommunications equipment

U.S. Trade, in billions



Source: Commerce Dept.

- Statistics Canada reports the country's trade deficit widened to a record \$2.7 billion (CAD) in July from an upwardly revised deficit of \$1.8 billion (CAD) in June, originally reported as \$1.1 billion (CAD) citing, lower exports of forestry products, shipments of industrial machinery and equipment; as well as weaker exports of medicinal and pharmaceutical products
- The Paris-based Organization for Economic Co-operation and Development (OECD) warns: "Recent high-frequency indicators point to a slowdown in the pace of recovery of the world economy that is somewhat more pronounced than previously anticipated. It is not yet clear whether the loss of momentum in the recovery is temporary, or whether it signals greater underlying weaknesses in private spending at a time when public support is being removed. Accordingly, central banks may have to provide additional stimulus and in some cases, governments may have to delay their plans to cut budget deficits to counter a slowdown in the global economy."

Wake-up call for the OECD: With the U.S. national debt at \$13.5 trillion (U.S.) and growing at the rate of \$200 million (U.S.) an hour, just how much additional stimulus does the OECD believe the United States should generate, or can afford? Faced with the prospect of double-digit unemployment and negative GDP growth looming on the economic horizon, at Longwave Analytics, we suggest America cannot afford another buffalo nickle of stimulus, especially when previous stimulus packages have had little or no positive economic effect. **THERE IS ALREADY TOO MUCH DEBT AT THE MUNICIPAL, STATE AND FEDERAL LEVELS.**

- Statistics Canada reports the New Housing Price Index declined by 0.1% in July following a 0.1 increase in June, citing the introduction of the Harmonized Sales Tax as a definite factor
- In its annual review of sovereign competitiveness, the World Economic Forum reports large deficits and a weakened financial system have caused the United States to fall from second to fourth in the review, behind Switzerland, Sweden and Singapore. The study includes statistical measures, as well as a survey of business owners to compare countries. In the United States, entrepreneurs cited access to credit and government regulations among their chief concerns.
- A \$13 billion (U.S.) auction of 30-year U.S. Treasury bonds were sold at a high yield of 3.82% – 9 basis points higher than their trading level on Wednesday. Although the bid-to-cover ratio was 2.73 times, foreign demand was weak with indirect bidders comprising only 36% of total buyers.

FRIDAY, SEPTEMBER 10TH

- BCE Inc. announces it is acquiring full ownership of CTV Inc. in a \$1.3 billion (CAD) transaction that dramatically reshapes the landscape of Canadian media and telecommunications sectors and changes the ownership structure of the Globe & Mail. George Cope, BCE's President and Chief Executive Officer, reflects: "This is truly an historic day for Bell. We are purchasing 100% of Canada's number one media company." The transaction also reconstructs the ownership of CTVglobemedia Inc. created a decade ago when CTV merged with the Globe & Mail. Woodbridge Co. Ltd., the holding company of the Toronto-based Thomson family, will regain a majority ownership of the Globe with an 85% holding.
- Statistics Canada reports the country's unemployment rate rose slightly to 8.1% in August from 8% in July, as Canadian employers created 35,800 jobs in August; citing a seasonal rebound in the education sector which outweighed job cuts in the private sector
- Jurgen Stark, a member of the European Bank executive board, warns that some of Germany's most important banks are undercapitalized, increasing fears about the consequences for the country of impending global standards (Basel III) that will impose even higher capital requirements
- German factory orders fell by 2.2% in July, following a 3.6% increase in June

- According to a second preliminary estimate released by the Japanese Cabinet Office, the country's gross domestic product (GDP) grew by 0.4% in the 2nd. quarter, previously reported as 0.1%

CLOSING LEVELS FOR FRIDAY, SEPTEMBER 10TH.		WEEKLY CHANGE
Dow Jones Industrial Average	10,462.80	+ 14.90 points
Spot Gold Bullion (December)	\$1,246.50 (U.S.)	– \$4.60 per ounce
S&P/TSX Composite	12,097.10	– 47.80 points

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