

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



Monday, October 4TH

The American Bankruptcy Institute reports U.S. consumer bankruptcy filings rose by 11% in the first nine months of this year to 1.165 million nationwide, compared to 1.046 million consumer filings in the same period a year ago.

MONDAY, OCTOBER 4TH

- In a speech delivered at the annual meeting of the Rhode Island Public Expenditure Council, Federal Reserve Chairman Bernanke stated: “Fiscal rules might be a way to impose discipline (on governments), particularly if those rules are transparent, ambitious and focused on what the legislature can control directly and are embraced by the public. However, although not all countries with fiscal rules have achieved lower deficits and debt, the weight of the evidence suggests that well-designed rules can promote improved fiscal performance.” Also, Mr. Bernanke warned: “Expectations of large and increasing (fiscal) deficits are a real and growing threat to our economy over the medium to long term. However, economic conditions provide little scope for reducing deficits significantly further over the next year or two; indeed, premature fiscal tightening could put the economic recovery at risk.”

Wake-up call for Mr. Bernanke: Your economy is already well into its next risk phase with more GDP contraction and increasing unemployment levels looming on the near-term horizon. In other words, there isn't going to be an economic recovery! Meanwhile, your national debt, currently at \$13.6 trillion (U.S.), is climbing at the rate of \$200 million (U.S.) an hour.

- At the Reuters Global Private Banking Summit in Geneva, UBS executive Josef Stadler, who manages the Swiss bank's services for clients with assets of at least \$50 million to invest, disclosed that some of the world's wealthiest people are buying physical gold by the bar – and sometimes by the tonne – citing concern about the outlook for both the U.S. economy and the U.S. dollar

- The National Association of Realtors reports U.S. pending home sales rose by 4.3% in August
- The Commerce Department reports U.S. factory orders declined by 0.5% in August, citing a big drop in demand for commercial aircraft and automobiles
- Joseph Stiglitz, one of the world's leading economists, warns that the future of the euro is “looking bleak” and the fragile European economic recovery could be irreparably damaged by a “wave of austerity” measures sweeping the continent
- Chapter Three of the International Monetary Fund's World Economic Outlook basically condemns southern Europe to a slow death and leaves little doubt that fiscal tightening will ensnare northern Europe, Britain and America in an economic downturn for a long time.

TUESDAY, OCTOBER 5TH

- The Institute for Supply Management (ISM) reports its U.S. service sector index rose to a reading of 54.3 in September, following a level of 53.8 in August. The service sector accounts for about 80% of U.S. employment and includes jobs in hospitals, shops, restaurants, airlines, banks and consulting firms

- The Bank of Japan (BOJ) cuts its benchmark interest rate range to 0 – 0.1% and pledges to maintain an easy monetary policy until sliding prices stabilize. Bank of Japan Governor Masaaki Shirakawa also announced the a new quantitative easing program to purchase \$60 billion (U.S.) in asset purchases – including corporate bonds, real estate investment trusts and equity mutual funds – which takes the BOJ down a new road in accepting market risk. Governor Shirakawa explained: “If a central bank tries to seek greater impact from its monetary policy, there is no choice but to jump into such a world.”
- Mexico issues \$1 billion (U.S.) of 100-year bonds at a yield of 6.10% about 237 basis points over 30-year U.S. Treasuries. This is the first century bond maturity issued by a Latin American sovereign credit. Without a doubt, this has to be a great deal for Mexico, for as long as it remains a viable sovereign entity.

WEDNESDAY, OCTOBER 6TH

- Fitch Ratings downgrades Ireland’s sovereign credit rating from ‘AA’ (Low) to ‘A’ (High) with a negative outlook, citing the country’s long fight to emerge from record deficits, the toughest bank bailout effort in Europe and a lagging economy. Meanwhile, Ireland’s National Treasury Management Agency floats a 1 billion pound (\$1.5 billion U.S.) issue of 8-year bonds at a yield of 6.02%, whereas a similar issue was marketed at a 5.09% yield basis just three months ago
- In a Wall Street Journal op-ed / chart, reporter Donald Luskin depicts how the New York “stock market, over the last year and a half, has followed a path eerily similar to that of 1937. This week corresponds on the chart to mid-August 1937, when the cumulative effects of massive hikes in personal and corporate tax rates, severe monetary tightening and aggressive-bashing by the Roosevelt administration tipped the (U.S.) economy into the ‘depression inside the Depression.’ From there, stocks were in for the longest and second-deepest bear market in history.”

Headed for a Fall?

Down Jones Industrial average before and after recovery highs on March 10, 1937 and April 26, 2010 (percentage change)



Source: Donald L. Luskin

- ADP Employer Services reports private sector payrolls declined by 39,000 in September from an August report upwardly revised by 20,000, citing “job creation remains rather anemic”

THURSDAY, OCTOBER 7TH

- The U.S. Labor Department reports initial claims for state unemployment benefits declined by 11,000 to a seasonally adjusted 445,00 in the week ended September 25th. while continuing claims fell by 83,000 to 4.46 million in the week ended September 18th.
- U.S. retailers Saks Inc., Abercrombie and Fitch, Limited Brands and Macy’s report “back-to-school” sales above expectations
- Standard & Poors (S&P) cuts its outlook for the Province of New Brunswick’s long-term credit rating to negative from stable, citing the Province’s deteriorating budgetary performance and rising debt burden. S&P currently rates the Province at ‘AA’ (Low).
- Statistics Canada reports Canadian building permits declined by 9.2% in August compared with July, as contractors withdrew more from the non-residential sector
- Goldman Sachs forecasts the U.S. Dollar will experience a sharp decline over the next 12 months if the U.S. Federal Reserve embarks on another round of securities purchases (quantitative easing), essentially, monetizing more of the U.S. national debt. Goldman’s chief economist, Jan Hatzius, warned that the U.S. economy faces a “fairly bad” or “very bad” scenario over the next 6 to 9 months.
At Longwave Analytics we are inclined to agree, since additional quantitative easing will only serve to maintain the prevailing level of interest rates at historically low levels and narrow yield spreads all along the yield curve; while simultaneously, doing nothing to stimulate final consumer demand within the U.S. economy; but likely further weaken the U.S. greenback. So much for the government myth of a “strong dollar policy.” Interestingly, New York-based economist Ed Yardeni suspects that the Fed may be gauging the success of its quantitative easing policies by their impact on financial markets, rather than the U.S. economy.
- The U.S. Department of Agriculture reports that recipients of Supplemental Nutrition Assistance Program subsidies for food stamps increased by 18% on a year-over-year basis in July to a record 41.8 million Americans. According to White House estimates, an average of 43.3 million Americans, more than an eighth of the population, will receive food stamps each month in the federal fiscal year of 2011 that began on October 1st.

- At the International Monetary Fund (IMF) annual conference in Washington, Managing Director Dominique Strauss-Kahn warned “the momentum of global economic co-operation is decreasing and that currency wars (and trade barriers) are not good for the global economy.” Robert Zoellick, President of the World Bank also warned that failure to co-operate “would risk plunging the world economy into depression. If one let’s this slide into protectionism, we run the risks of the mistakes of the 1930s.”

FRIDAY, OCTOBER 8TH

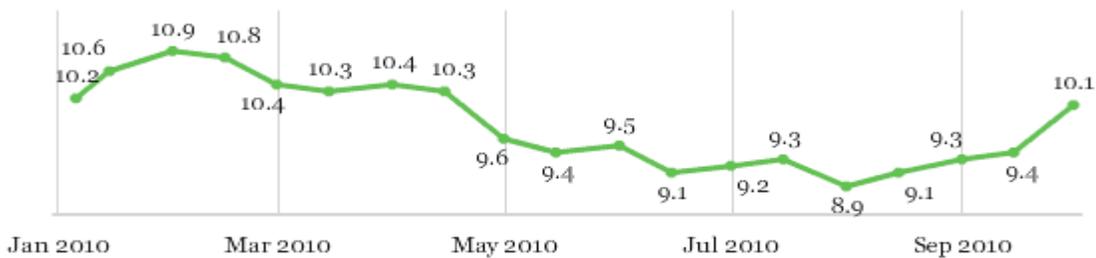
- The U.S. Labor Department reports non-farm payrolls declined by 95,000 in September, following a revised drop of 57,000 in August, citing cuts in state and local jobs such as education. The unemployment rate held steady at 9.6%.
- The Royal Navy is set to be reduced to the smallest size in its history after the U.K. Admiralty proffered drastic reductions in the service fleet in order to save two new aircraft carriers from defense budget cuts

- The U.S. unemployment rate, as measured by Gallup without seasonal adjustment, rose to 10.1% in September – up sharply from 9.3% in August and 8.9% in July. U.S. underemployment (the unemployed plus workers who have exhausted benefits, or given up looking for work) stands at 18.8% in September.
- The Bank of America (B of A) places a moratorium on all foreclosure proceedings and sales in the U.S. amid political pressure on U.S. banks to examine foreclosure documentation problems. This B of A decision could grind a significant portion of the U.S. real estate market to a halt over the next few months.
- Statistics Canada reports the country’s economy lost 6,600 jobs in September, while the unemployment rate declined by 0.1% to 8%. Separately, the Bank of Canada’s Business Outlook Survey reveals fewer of the business executives it surveys plan to increase staffing levels during 2011.
- The European Central Bank (ECB) leaves its key lending rate unchanged at 1%

Gallup's U.S. Unemployment Rate

30-day averages^; not seasonally adjusted

■ % Unemployed



^ Numbers reflect rolling averages for the 30-day periods ending Jan. 6, Jan. 15, and Jan. 31, and on the 15th and the last day of each month from February through Sept. 30, 2010

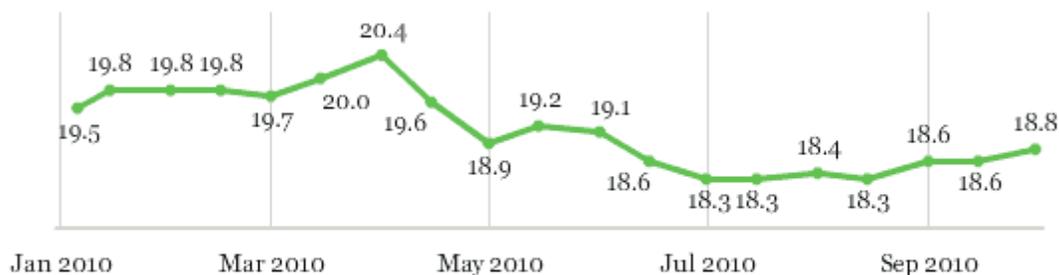
Gallup Daily tracking

GALLUP®

U.S. Underemployment

30-day averages[^]

■ % Underemployed



[^] Numbers reflect rolling averages for the 30-day periods ending Jan. 6, Jan. 15, and Jan. 31, and on the 15th and the last day of each month from February through Sept. 30, 2010

Gallup Daily tracking

GALLUP[®]

CLOSING LEVELS FOR FRIDAY OCTOBER 8TH.	WEEKLY CHANGE
Dow Jones Industrial Average	11,006.50 + 176.82 points
Spot Gold Bullion (December)	\$1,345.30 (U.S.) + 27.50 per ounce
S&P/TSX Composite Index	12,535.60 + 172.52 points

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