

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



Monday, March 21st, 2011

The Office of the Superintendent of Bankruptcy reports Canadian insolvency filings declined by 11.5% to 140,234 in 2010 compared with 158,141 cases in 2009

MONDAY, MARCH 21ST

- A new assessment of U.S. President Barack Obama's February budget by the non-partisan Congressional Budget Office (CBO) concludes that the White House is underestimating federal budget deficits over the next decade by \$2.3 trillion (U.S.). The CBO estimates President Obama's budget proposal would produce budget deficits totaling \$9.5 trillion (U.S.) over ten years, compared to President Obama's prediction of \$7.5 trillion (U.S.) over the same period. The difference is mainly because the CBO has a less optimistic estimate of government tax revenues and domestic economic growth.
- The National Association of Realtors reports U.S. existing home sales declined by 9.6% in February to a seasonally adjusted 4.88 million units, citing continuing high unemployment
- The U.S. Treasury Department announces it will soon commence selling its \$142 billion (U.S.) inventory of mortgage-backed securities purchased in 2008, realizing between \$15 billion (U.S.) and \$20 billion (U.S.) in profits for American taxpayers
- Citing pension costs, last week the City of Costa Mesa, California issued layoff notices to 45% of its employees – a total of 210 municipal workers. Tragically, as the layoff notices were being distributed, Huy Pham, a maintenance worker, committed suicide by jumping from the city hall roof.

TUESDAY, MARCH 22ND

- After the U.S. Supreme Court rejected a banking industry appeal which aimed to shield loan data records from public access, the U.S. Federal Reserve must disclose details of emergency loans it made to banks in 2008
- Canadian Finance Minister Jim Flaherty brings down his budget for the fiscal year ending March 31, 2012, citing a balanced budget for fiscal 2016, only to be rejected by all opposition parties, prompting a probable election call. In 2010 about eleven cents of every tax dollar went to service Canada's outstanding debt.
- Laying bare America's most startling example of modern urban collapse, U.S. Census Bureau data reveals that Detroit's population plunged by 25% over the last decade – or by 237,500 people to 713,777. Neighbouring Oakland County Executive Brooks Paterson remarked: "It's a major city in free-fall. Detroit's tax base is eroding, its citizens are fleeing and its school system is in the hands of a financial manager." See also, Winter Warning, February 15, 2011 – It's Still the Debt, Stupid and The Motown War Zone

WEDNESDAY, MARCH 23RD

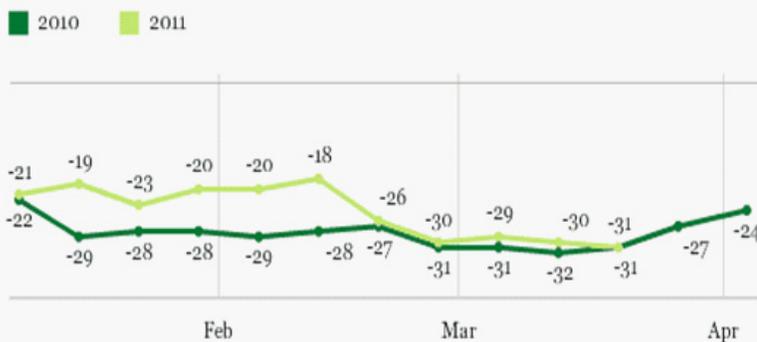
- Portugal's Prime Minister Jose Socrates resigns his position after the Portuguese parliament rejected the government's deficit reduction plan, which included higher taxes and the deepest spending cuts in more than three years
- Shaw Communications Inc., the Calgary-based cable giant, announces 500 job layoffs across its corporate operations in an effort to cut costs amid fierce competition
- George Osborne, Britain's Chancellor of the Exchequer, presents his budget for fiscal 2012 in the House of Commons, maintaining a commitment to austerity in public spending despite new signs of slowing economic growth: "This is neither a tax-raising budget, nor can we afford giveaways. This is a budget built on sound money. Britain has a plan and we are sticking to it."
- The Federal Reserve Bank of Chicago national index, which draws upon 85 economic indicators, declined to a reading of minus 0.04 in February from a level of 0.01 in January. A reading below zero indicates below trend growth in the national economy and a sign of easing pressures on future inflation. The index is based upon the work of James Stock of Harvard University and Mark Watson of Princeton University.
- Gallup's Economic Confidence Index for the U.S. declined to a reading of minus 31 in the week ended March 20th. – matching the comparable week level of a year ago

- In a speech at the University of Frankfurt, Dallas Federal Reserve Bank President Richard Fisher stated: "The U.S. debt situation is at a tipping point. If we continue down the path on which the fiscal authorities put us, we will become insolvent, the question is when. The Fed has done enough, if not too much, and we should do no more. In my opinion, no further accommodation is necessary after June, either by tapering off the bottom of Treasuries, or by adding another tranche of purchases outright."
- The Commerce Department reports U.S. new home sales declined by 16.9% to a 250,000 annual pace in February, citing foreclosures which are adding to the inventory of unsold properties and driving down values

THURSDAY, MARCH 24TH

- The Commerce Department reports U.S. durable goods orders declined by 0.9% in February, following an upwardly revised gain of 3.6% in January
- The Labor Department reports U.S. initial claims for state unemployment benefits declined by 5,000 to 382,000 in the week ended March 19th. while continuing claims fell to 3.7 million in the week ended March 12th. About 4.3 million people who have exhausted their benefits were receiving emergency or extended benefits under federal programs in the week ended March 5th.
- A new consortium named BC LNG Export Co-operative LLC applies to Canada's National Energy Board for approval to construct a second liquefied natural gas terminal at Kitimat, B.C. Tom Taitham, managing director of BC LNG commented: "Asian markets are completely different from Alberta and British Columbia. Asian (consumers) are used to paying oil-equivalent prices (for natural gas) which are much, much higher than we're used to here in North America."
- The Federal Reserve announces that Chairman Ben Bernanke will now hold press conferences on a quarterly basis, following the release of the Fed's most recent economic projections. In a press release, the Fed stated: "The introduction of regular press briefings is intended to further enhance the clarity and timeliness of the Federal Reserve's monetary policy communication by providing additional context for the Federal Open Market Committee's policy decisions."
In other words, expect more Fed speak in the language of the subjunctive.

Economic Confidence Index by Week, 2010 and 2011



Note: 2011 data are for weeks ending Jan. 9, 16, 23, and 30; Feb. 6, 13, 20, and 27; and March 6, 13, and 20. Parallel weeks in 2010 ended Jan. 10, 17, 24, and 31; and Feb. 7, 14, 21, and 28; and March 7, 14, and 21

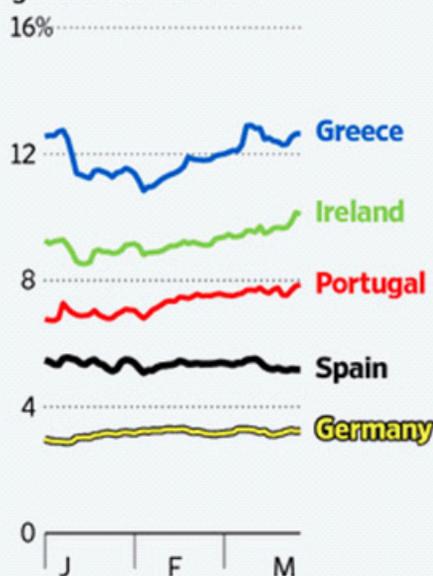
Gallup Daily tracking

GALLUP

- Moody's Investors Service downgrades the credit rating of 30 small, regional Spanish banks (cajas) over a range of one to four levels, citing pressure on the country's sovereign debt and the weak state of many of its financial institutions
- In the wake of the U.K. government's budget proposal for fiscal 2012, the independent Office for Budget Responsibility lowered its forecast for GDP growth to 1.7% from 2%. Simultaneously, Moody's Investors Service warned: "The government's ongoing commitment to large-scale deficit reduction is very important to the 'AAA' (credit) rating and stable outlook. Although the weaker economic growth prospects in 2011 and 2012 do not directly cast doubt on the U.K.'s sovereign rating level, we believe that slower growth combined with weaker-than-expected fiscal consolidation could cause the U.K.'s debt metrics to deteriorate to a point that would be inconsistent with a 'AAA' rating."
- Fitch Ratings downgrades Portugal's sovereign debt credit rating to 'A' (Low), citing "increased risks to policy implementation and fiscal financing in light of the Portuguese parliament's failure to pass fiscal consolidation measures and the resignation of the Prime Minister on March 23rd. Given the lack of improvement in financing conditions, Fitch no longer assumes Portugal can maintain affordable (bond) market access this year under its baseline scenario."
- Statistics Canada reports the number of people receiving regular Unemployment Insurance benefits declined by 13,300 to 640,200 in January
- Richfield, Minnesota-based retailer Best Buy Co. reports a 16% profit decline in the quarter ended February 26th. and warns that the current sales slump could continue through this fiscal year, as the world's largest electronic chain continues to struggle amid increased competition from Wal-Mart Stores Inc. and Amazon.com Inc.
- Regarding the recent record high prices touched by silver and gold bullion, James West – editor of the Midas Letter – comments: "There are so many factors pointing to, not only an increasing gold and silver price, but also for an absolute breakout (of these precious metals) seems all but inevitable at this point. Judging by the solid return to strength in the junior resource sector on the buy side, it appears that not only gold, but silver also, is poised to set new (price) records in the (trading) sessions immediately ahead."
- The Financial Times reported that the State of Utah will upon the governor's approval make US gold coins legal tender in the State. "This proto-gold standard in the American west is a rebuke and challenge to the Fed, and a reminder that the easy monetary policy since 2007 has won the central bank many more enemies than friends." Financial Times, Thursday March 24th, 2011. This begs the question why would anyone in their right chose to make payment in gold when depreciating paper dollars continue to be legal tender.

Holding the Line

Yields on 10-year government bonds



Source: Thomson Reuters

FRIDAY, MARCH 25TH

- The Commerce Department reports the U.S. gross domestic product (GDP) rose by an upwardly revised 3.1% annual rate in the 4th. quarter of 2010, previously estimated as a 2.8% increase, citing higher consumer spending and increased exports
- The Labor Department reports unemployment declined in 27 U.S. states in February, led by Nevada where the jobless rate fell to 13.6%
- The Thomson Reuters / University of Michigan final index of consumer sentiment declined to a reading of 67.5 in March – following a level of 77.5 in February – the lowest reading since November 2009; citing higher gasoline and food prices straining the finances of American households

CLOSING LEVELS FOR FRIDAY, MARCH 25 TH.		WEEKLY CHANGE
Dow Jones Industrial Average	12,220.60	+ 362.10 points
Spot Gold Bullion (April)	\$1,426.20 (U.S.)	+ \$6.60 per oz.
S&P / TSX Composite	14,039.40	+ 249.80 points
10-year U.S. Treasury Yield	3.44%	+ 17 basis points
Canadian Dollar	101.98 cents (U.S.)	+ 0.38 cent
U.S. Dollar Index Future (Spot Price)	76.151 cents	+ .591 cent
WTI Crude Oil (April)	\$105.40 (U.S.)	+ \$4.00 per barrel

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