

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



Monday, October 3rd

The Tempe, Arizona-based Institute for Supply Management's (ISM) factory index rose to a reading of 51.6 in September from a level of 50.6 in August. A reading of 50 is the dividing line between expansion and contraction in the manufacturing sector.

MONDAY, OCTOBER 3RD

- The Greek government passes a new budget – backed by its international creditors – which includes 6.6 billion euros of austerity measures, to cut the fiscal 2012 deficit to 6.8% of gross domestic product (GDP). As the country moves closer to securing an 8 billion euro (\$10.7 billion U.S.) aid package needed to avoid default, the government also approved a plan to identify by December, 30,000 public workers who will either be placed on reduced salaries, early retirement, or eventually receive layoff notices. The plan aims to cut 300 million euros from the government payroll in 2012.
- Front Page Headline, Bloomberg News – “Asian Economies Weaken as European Debt Crisis Crushes Investor Confidence. A purchasing managers' index for India declined to a reading of 50.4 in September from 52.6 in August. An Australian manufacturing index fell to a reading of 42.3 in September from 43.3 in August – the sixth month in the last seven the index was below 50. The Shanghai Composite Index is at its lowest level since July 2009.”
- Front Page Headline, Globe and Mail – “Automobile Sales Jump in Canada. Chrysler Canada reports sales of 19,255 vehicles in September, a 19% increase from the same period a year ago. Ford Canada reports car sales up 14% in September on a year-over-year basis, maintaining the top spot on a year-to-date basis.”
- The Commerce Department reports U.S. construction spending rose by 1.4% in August, following a revised drop of that same magnitude in July, citing the largest increase in state and local government outlays in more than two years
- Front Page Headline, Washington Post – “Top Federal Watchdog Faces Budget Cuts. The U.S. Government Accountability Office (GAO) – the congressional investigative agency – stands to lose as much as \$50 million (U.S.) this year, that its defenders predict would force widespread layoffs and the closure of its regional offices. Current budget proposals would also force the agency to detail the costs and manpower used to publish its reports, a task that supportive lawmakers fear could politicize the nonpartisan office.”
- According to Weiss Research Inc., Luke Savage, Finance Director for Lloyd's of London – an insurance legend in business for 323 years – has announced the company has withdrawn its money from bank accounts all over Europe: “If you're worried the government itself might be at risk, then you're certainly worried that the banks could be taken down with them.”
- Front Page Headline, Wall Street Journal – “September U.S. Auto Sales Rise. General Motors, Nissan and Chrysler each report U.S. sales gains of at least 20%, but Honda and Toyota sales fell again, due to low inventories from the March earthquake in Japan.”

## TUESDAY, OCTOBER 4TH

- Front Page Headline, Market Watch – “European Union Determined to Avoid Greek Default. At a news conference, Jean-Claude Juncker, Prime Minister of Luxembourg, stated: “Members of the euro zone will do everything to avoid a Greek debt default. No euro zone country advocates that Greece default on its debt, or be ejected from the euro.”
- Deutschebank AG announces 500 job layoffs and further write downs of Greek bond holdings amid a “significant and unabated slowdown in client activity.”
- In a Financial Times op-ed, Kenneth Rogoff, professor of economics at Harvard University and co-author with Carmen Reinhart of ‘This Time Is Different,’ observes: “As highlighted both by this summer’s debilitating debt debate in the U.S., as well as by Europe’s continuing struggle with periphery insolvencies, macroeconomic policy is much closer to being paralysed, than to being manipulated ... Given the highly skewed risks now facing the (global) economy, it is absurd to be worrying excessively about a 1970s-style stagflation ... The risks of a Japanese-style lost decade, or even a second Great Depression are far more immediate.” See also, Winter Warning, September 29, 2011 – The Demise of the American Dream.
- Front Page Headline, Wall Street Journal – “New York State Sues Bank of New York Mellon in Forex Case. In a civil complaint, New York Attorney General Eric Schneiderman sues Bank of New York Mellon in state court for almost \$2billion (U.S.), alleging that one of the world’s largest custody banks defrauded pension funds when it improperly charged for currency transactions.”
- Moody’s Investors Service downgrades Italy’s sovereign debt credit rating to A2 from Aa2 with a negative outlook, citing:
  1. The material increase in long term funding risks for euro area sovereigns with high levels of public debt, such as Italy, as a result of the sustained and non-cyclical erosion of confidence in the wholesale finance environment for euro sovereigns, due to the current sovereign debt crisis.
  2. The increased downside risks to economic growth due to macroeconomic structural weaknesses and a weakening global outlook.
  3. The implementation risks and time needed to achieve the government’s fiscal consolidation targets to reverse the adverse trend observed in the public debt, due to economic and political uncertainties.

- Testifying before Congress’ Joint Economic Committee, Federal Reserve Chairman Ben Bernanke warned: “The U.S. economy is close to faltering and the White House has a shared responsibility with the central bank to respond ... More (action) will be needed to sustain fiscal responsibility, so I urge Congress and the White House to formulate better policies to shrink the federal budget deficit over the long run, without cutting to aggressively in the short term.”
- Headline, Financial Times-“Qatar Planning to Invest \$10 bn in Gold Mining Sector.” “‘They want a meaningfully producing multi-asset gold conglomerate,’ said one person with knowledge of the plans, ‘they don’t want bullion-they want producing mines.’”

## WEDNESDAY, OCTOBER 5TH

- According to data compiled by ADP Employer Services, American companies added 91,000 jobs in September, following a revised increase of 89,000 in August. Russell Price, senior economist at Ameriprise Financial Inc. in Detroit commented: “Employment is likely to languish ... until business leaders see an improvement in consumer demand.”
- Front Page Headline, Globe and Mail – “Up To \$266 billion (U.S.) Needed for Europe’s Banks – IMF. In an interview with Reuters, Antonio Borges, the International Monetary Fund’s European Department Director commented: “Europe needs between 100 billion euros and 200 billion euros (\$266 billion U.S.) to recapitalize its banks and win back investor confidence. A European plan should be carried out across the continent and not in a staggered process ... These figures are very small compared to the size of European capital markets and compared to the resources of the new, enhanced European Financial Stability Facility (EFSF).”
- The Royal LePage house price survey reports the average price of a home in Canada rose between 5.7% and 7.8% in the 3rd quarter, compared with the same period in 2010. The average price of a detached bungalow was \$349,974 (CAD); a standard two-storey home was \$388,218 (CAD) and a standard condominium was \$239,300 (CAD). Phil Soper, President and Chief Executive Officer of Royal LePage Real Estate Services commented: “The strength in Canada’s national housing market conceals signs of a predictable softening in some regions ... A broader slowdown is expected in the months ahead.”

- Front Page Headline, Bloomberg News – “Announced Job Cuts in U.S. More Than Triple From Year Ago – Challenger. Chicago-based Challenger, Gray and Christmas Inc. reports U.S. businesses announced job layoffs rose by 212% – the largest increase since January 2009 – to 115,730 in September from 37,151 in September 2010. Cuts in government employment, led by the Army’s 5-year troop reduction plan, plus layoffs at the Bank of America accounted for almost 70% of the announcements.”
- Front Page Headline, Financial Times – “Bernanke Accuses China of ‘Hurting the Recovery’ With Currency Moves.” On Monday the US Senate voted overwhelmingly on a bill, clearly aimed at China, that would impose tariffs on imports from countries with undervalued currencies. “On Tuesday, the Chinese government blasted the bill in statements released simultaneously by the foreign ministry, the central bank and the ministry of commerce, saying the legislation could spark a ‘trade war’.  
“By using the excuse of a so-called currency imbalance, that bill escalates the exchange rate issue, takes protectionist measures, gravely violates the rules of the World Trade Organization and severely upsets China-US economic and trade relations; China expresses firm opposition to it,” said the foreign ministry.

#### THURSDAY, OCTOBER 6TH

- The Labor Department reports U.S. initial claims for state unemployment benefits increased by 6,000 to 401,000 in the week ended October 1st. while continuing claims declined by 52,000 to 3.7 million in the week ended September 24th. Those people who have exhausted their traditional benefits, but are now receiving emergency or extended benefits under federal programs decreased by about 28,370 to 3.55 million in the week ended September 17th.
- Front Page Headline, Globe and Mail – “Canadian Pension Funds Take Hit in 3rd. Quarter. Pension consulting firm Mercer reports its pension health index declined to a reading of 60% funding capacity at the end of September from a reading of 71% at the end of June and 75% at the end of March. The index measures the change in funded status of a typical pension plan with average asset allocations.”
- The British Broadcasting Corp. (BBC) announces plans for 2,000 job layoffs over the next 5 years. BBC Director Mark Thompson termed the program: “the most far-reaching transformation in our history, designed to create a smaller and radically reshaped BBC.” In addition, the BBC is reducing the budget for the company’s website by 25% and cutting its budget for sports broadcast rights by 15%.
- Under pressure from the U.S. Congress to confront China on economic issues, the Obama administration has notified the World Trade Organization (WTO) of nearly 200 Chinese subsidy programs, citing many of them may violate free trade rules. In a statement, Ron Kirk, the United States trade representative, noted: “Many of the subsidies have been identified in a year-long American inquiry into how the Chinese government helped bankroll the rapid growth of its clean energy industries.”
- Front Page Headline, New York Times – “Putin Urges Vote on Admission of Russia to World Trade Organization. In his first direct address to investors following his recent announcement to seek the Russian presidency next March, Prime Minister Vladimir Putin urges trading partners to decide soon whether to admit Russia into the WTO. Russia’s membership application has been pending for 18 years.” At Long Wave Analytics, we hope WTO members like the United States, Great Britain and Canada possess the wisdom to deny the Russians membership. Clearly, Mr. Putin and his oligarch cronies cannot be trusted to abide by WTO rules. Indeed, Mr. Putin has a long, well-documented and pathetic history of making up his own rules.
- Front Page Headline, U.K. Daily Telegraph – “World Facing Worst Financial Crisis in History – Sir Mervyn King, Governor of the Bank of England. The Governor unveils plans to increase the Bank’s quantitative easing (bond purchasing) program by 75 billion pounds to 275 billion pounds, citing “pre-emptive action to prevent the (economic) slowdown (from) becoming too serious. This is the most serious financial crisis we’ve seen, at least since the 1930s, if not ever. We have to deal with very unusual circumstances, but to act calmly to this and do the right thing.” The Bank’s Monetary Policy Committee (MPC) also stated: “The euro zone debt crisis is creating severe strains in bank funding markets and financial markets. Moreover, the inflation-driven squeeze on households’ real incomes and the government’s program of spending cuts will continue to weigh on domestic spending for some time to come.”

- Front Page Headline, Wall Street Journal – “September U.S. Retail Same-Store Sales Show Gains. The 23 American retailers tracked by Thomson Reuters report a 5.1% increase in same-store sales (stores open for more than a year), as deep discounts helped to clear shelves of merchandise in preparation for the holiday season.”
- In testimony before the U.S. Senate Banking Committee on the subject of the country’s lingering mortgage crisis, U.S. Treasury Secretary Tim Geithner predicts: “I think what you’re going to see from the Director of the Federal Housing Finance Agency (FHFA) in the next couple of weeks are (some) very detailed proposals ... that I think will make a difference in the mortgage industry.”

#### FRIDAY, OCTOBER 7TH

- The Federal Reserve reports U.S. consumer credit declined by \$9.5 billion (U.S.) in August, following an \$11.9 billion (U.S.) increase in July. The non-revolving credit component, which includes student loans and financing for automobile purchases, fell by the greatest amount in three years.
- The Labor Department reports U.S. non-farm payrolls increased by 103,000 in September, following a gain of 57,000 in August; while the unemployment rate remained unchanged at 9.1%. In a Bloomberg interview, Pimco fixed income manager Bill Gross commented: “The September job gains aren’t enough to sustain economic growth in America. The economy needs 200,000 to 250,000 new jobs per month to expand ... I don’t think Barack Obama has been very good for the economy and I don’t think Mitt Romney would be either. Neither camp recognizes the problems in term of job creation.”
- In a New York Times op-ed entitled ‘17 Countries, but Even More Unknowns’ reporter Gretchen Morgenson (authoress with co-author Joshua Rosner of ‘Reckless Endangerment – How Outsized Ambition, Greed, and Corruption led to Economic Armageddon’) states: “As the situation in Europe deteriorates, our own financial institutions are coming under growing scrutiny from investors. American banks have made loans to European ones. Some have also written credit insurance on the debt of European institutions and troubled nations like Greece. So, if a (euro zone) default were to occur, some American banks would be on the hook ... Last week, U.S. Treasury Secretary Tim Geithner told Congress: “The direct exposure of the U.S. financial system to the countries under the most pressure in Europe is very modest.” Investors have heard such assurances before and they

have learned to take them with a barrel of salt. Remember how the subprime (mortgage) crisis was going to be “contained.”

- Front Page Headline, the Globe and Mail – “Occupy Wall Street: Who They Are, What They Want. The Occupy Wall Street protest movement is attracting a national following of Americans who are frustrated with a political system they say favours corporations and the super-rich. In the less than three weeks since protesters first converged on lower Manhattan, New York City, similar demonstrations have been orchestrated in Boston, Chicago, Los Angeles and other U.S. cities. David Meyer, author of The Politics of Protest and a professor of sociology at the University of California, Irvine, said: ‘Confusion about the protesters’ goals is a barrier to bringing about change because it’s easy for observers to dismiss the group.’ On September 24th. the NYPD arrested about 80 people, as demonstrators marched through lower Manhattan and on October 1st. a march to Brooklyn ended with over 700 arrests on the Brooklyn Bridge.”

#### Commentary

Despite being known for its sensationalist headlines, the above New York Post front page headline has to be the most foul piece of “journalism” (and I use the term very loosely) I have ever witnessed by an long-established (13th. oldest newspaper in the U.S.) member of the American newspaper industry. One would never see such a headline in the Globe and Mail. The obvious corrosion of the Brooklyn Bridge in the photograph mirrors the decaying of various elements of the American media. The New York Post sure has a lot of class as a tabloid – too bad it’s all third.

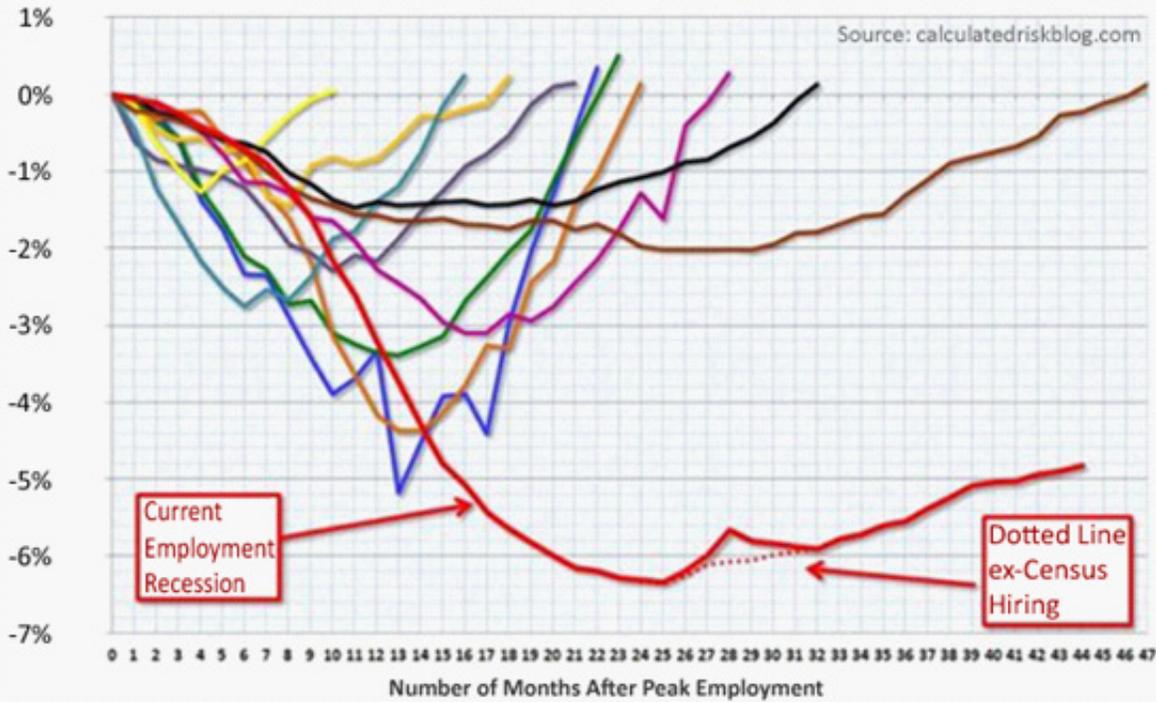
As mentioned above, the ‘Occupy Wall Street’ protesters are showing their disdain for what activists say is an American political culture favouring the rich. With the vast political lobbying system in Washington, when has it ever been any different? See Winter Warning, March 16, 2009 – Having Looked to Government for Bread, on the Very First Scarcity, They Will Turn and Bite the Hand That Fed Them. Wealthy people have always been the most revered and respected by the American populace. Even today, who are the most worshipped people in America? Why multi-millionaire movie stars, multi-millionaire musicians and singers, multi-millionaire TV personalities, multi-millionaire sports stars, billionaire investors, billionaire inventors and billionaire business owners are all atop the list. Be assured, the almighty U.S. dollar rules in the United States and it is the fundamental lynchpin of the American culture. See also, Winter Warning, September 29, 2011 – The Demise of the American Dream.

MoneyGame  Chart of the Day

% Job Losses  
Relative to Peak  
Employment Month

### Percent Job Losses In Post WWII Recessions

—1948 —1953 —1957 —1960 —1969 —1974 —1980 —1981 —1990 —2001 —2007



- Headline, Financial Times-“Obama Steps Up Wall Street Attack.” “The anti-Wall Street protests spreading across the US ‘express the frustration’ of ordinary Americans angry that bankers who caused the financial crisis are still fighting regulatory reform, Barack Obama said.”
- Fitch Ratings downgrades the sovereign debt credit ratings of both Italy and Spain: to ‘A’ (High) from ‘AA’ (Low) and to ‘AA’ (Low) from ‘AA’ (High), respectively. In a general statement, Fitch noted: “A credible and comprehensive solution to the euro zone crisis is politically and technically complex and it will take time to put in place.”

CLOSING LEVELS FOR FRIDAY, OCTOBER 7TH.		WEEKLY CHANGE
Dow Jones Industrial Average	11,103.12	+ 189.74 points
Spot Gold Bullion (December)	\$1,635.80 (U.S.)	+ \$13.50 per oz.
S&P / TSX Composite	11,588.36	– 35.48 points
10-Year U.S. Treasury Yield	2.08%	+ 16 basis points
Canadian Dollar	96.31 cents (U.S.)	+ 0.91 cent
U.S. Dollar Index Future (Spot Price)	78.753 cents	– 0.043 cent
WTI Crude Oil (November)	\$82.98 (U.S.)	+ \$3.78 per barrel

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