Monday January 30th, 2012

LONGWAVE group

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS

Monday, January 30th

Front Page Headline, Financial Times – "Greek Fury at Plan for EU Budget Control. Greece's Finance Minister Evangelos Venizelos angrily rejects a German plan for the euro zone to impose a budget overseer for the Greek government, as part of a new 130

MONDAY, JANUARY 30TH

billion euro bailout package, citing: 'It would improperly force Greece to choose between financial assistance and national dignity; and it ignores some key historical lessons. European Union lenders already have sufficient monitoring safeguards in place within the bailout package." EU and International Monetary Fund officials have already presented the Greek government with a 10-page list of 'prior actions' Athens must take before receiving the new bailout. The list includes 150,000 public sector layoffs within three years and cutting the current budget deficit by a further 1% of gross domestic product (GDP). To reduce Greece's debt to 120% of GDP by 2020, the IMF has insisted that more must be done. Talks which focus on whether European lenders or the ECB would undertake that task are now expected to continue into mid-February.

- Front Page Headline, New York Times – "WTO Orders China to Halt Export Taxes on Minerals. The Appellate Body of the World Trade Organization rules: 'China distorted international trade through dozens of export policies it maintains for bauxite, zinc, yellow phosphorous and six other industrial minerals. The overall effect of China's export restrictions was harming international trade and the policies must be dismantled.' The case against China was filed in 2009 by the United States, the European Union and Mexico. U.S. trade representative Ron Kirk hailed the ruling as 'a tremendous victory for the United States. The decision ensures that core manufacturing industries in America can obtain the materials they need to produce and compete on a level playing field."

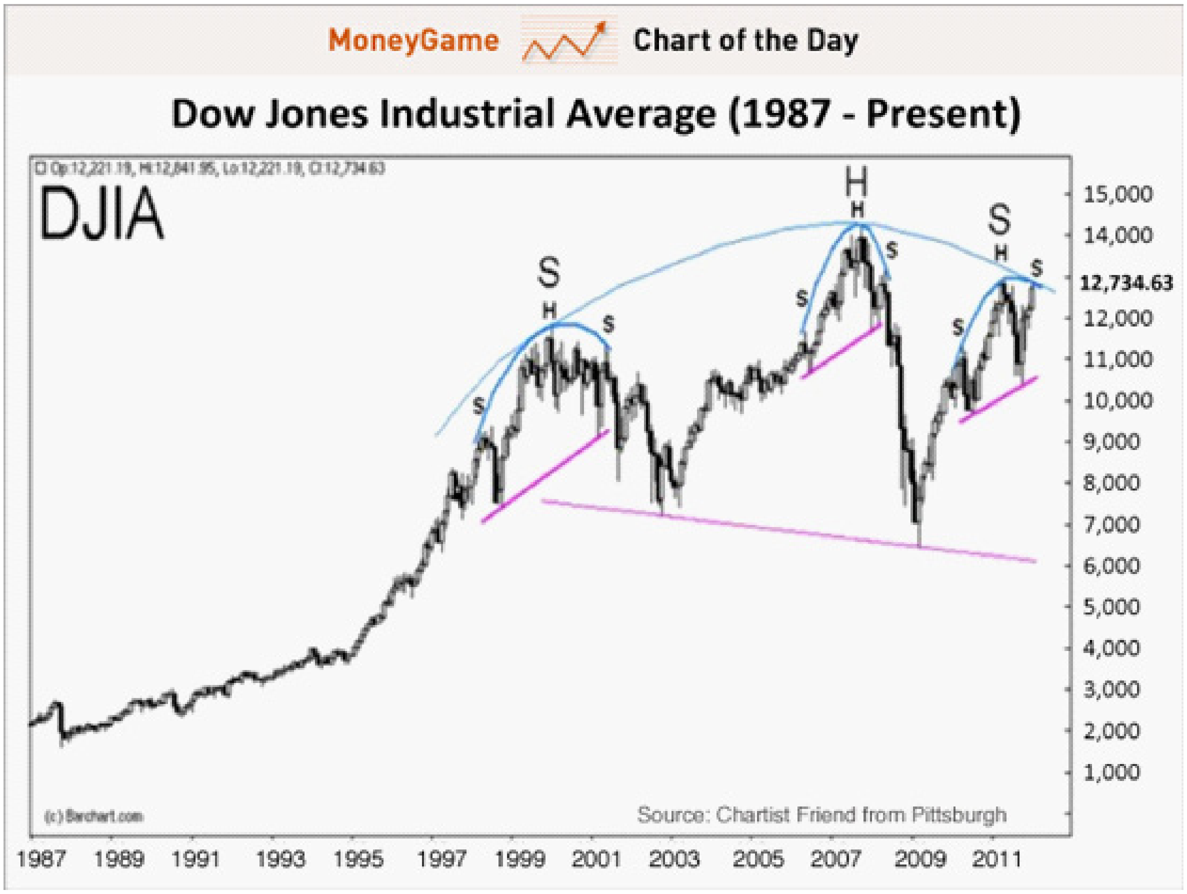
- Front Page Headline, Financial Times – "European Banks Set to Double Crisis Loans from ECB. European banks are preparing to borrow additional funds from the European Central Bank at its next loan auction scheduled for February 29th. At last week's World Economic Forum in Davos, several of the eurozone's biggest banks informed the Financial Times they could well double or triple their request for loans which totaled 489 billion euros of 3-year, 1% loans in December. One euro zone banker – preferring to remain anonymous – stated: 'Banks are not going to be as shy the second time around. We should have borrowed more the first time."

- The Washington-based American Institute of Architects reports the Architecture Billings Index – a leading indicator of private non-residential construction – rose to a reading of 54.1 in December, the highest in 10 months, following a level of 52 in November

- Front Page Headline, Daily Telegraph U.K. – "Portuguese Debt Storm Clouds Gather. Portuguese 10-year sovereign bond yields surge to 17.38% and raise the spectre of a second full-fledged contagion crisis within the euro zone. While the country is already shielded by a 78 billion euro bailout package from the European Union (EU), the European Central Bank (ECB) and the International Monetary Fund (IMF) 'troika' and does not have to refinance any bond maturities this year; Citigroup is forecasting Portugal's gross domestic product (GDP) to contract by 5.7% this year and by 3.5% next year, replicating the downward economic spiral seen in Greece as austerity measures began to take effect. While Portugal has delivered on its austerity promises, the task may prove Sisyphean (endlessly laborious) with a combined public and private debt of 360% of GDP – 100 percentage points higher than in Greece. Jacques Cailloux, an analyst with the Royal Bank of Scotland, predicts there would be a chain reaction if the 'troika' halts bailouts that sets in motion a Greek default and exit from the European Monetary Union: 'That would be the disaster scenario. Those who think this could be contained don't know what they're talking about. There would be extraordinary contagion, as we are already seeing in Portugal, spreading back to Spain, Italy and France."

- The Commerce Department reports the U.S. savings rate rose to 4% in December from 3.5% in November. Separately, personal income rose by 0.5% in December, while consumer spending remained flat.

- Front Page Headline, MarketWatch News, "EU Leaders Sign Stringent Fiscal Pact. At a Brussels Summit meeting, European Union leaders sign a treaty aimed at strengthening accountability on member nation's efforts to curtail overspending and resolve the region's debt crisis. In a statement, European Council President Herman Van Rompuy commented: 'The (new) treaty is all about more responsibility and better surveillance. Every country that signs it commits to bringing a debt brake or golden rule into its own legislation … at a constitutional or equivalent level. New voting rules and an automatic correction mechanism will enforce compliance more effectively.' Twenty-five EU member states, including 17 European Monetary Union (EMU) countries are expected to sign the fiscal pact at the next summit meeting in March. The treaty will become effective after 12 euro nations have ratified it. Only the United Kingdom and the Czech Republic will not be signatories."



TUESDAY, JANUARY 31ST

- The S&P/Case-Shiller index of property values in 20 U.S. cities declined by 3.7% in November on a year-over-year basis, following a drop of 3.4% recorded in October. A heavy supply of foreclosures continues to overshadow record low mortgage rates.

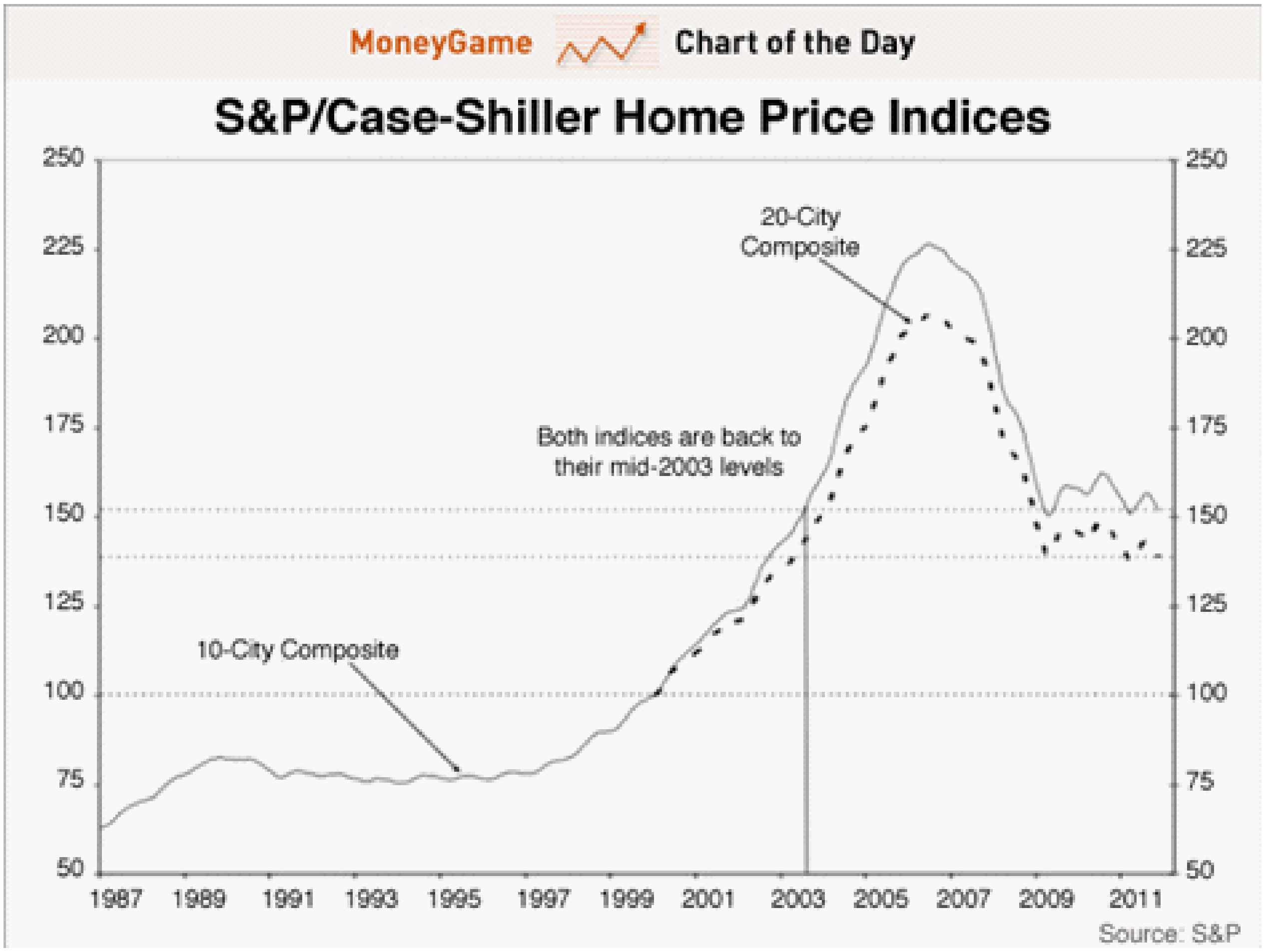
- Statistics Canada reports the nation's gross domestic product (GDP) declined by 0.1% in November, citing maintenance closures by crude oil producers and lower natural gas production

- The Institute for Supply Management-Chicago Inc. reports its purchasing managers' index (PMI) declined to a reading of 60.2 in January from a level of 62.2 in December, citing slower economies in Europe and some emerging markets posing a risk to U.S. export growth

- The Wiesbaden-based Federal Statistics Office reports German retail sales declined by a seasonally adjusted 1.4% in December, citing consumer worries about the euro zone debt crisis

- Insee, France's national statistics office, reports French consumer spending declined by 0.7% in December, following a drop of 0.1% in November, citing flat household purchases over the past six months due to consumer concern about the economic outlook

- Istat, Italy's national statistics institute, reports Italy's unemployment rate rose to 8.9% in December – the highest level in eight years – as the economy slowed at the imposition of austerity measures intended to battle the domestic deficit crisis



- The Conference Board reports its index of U.S. consumer confidence declined to a reading of 61.1 in January, following an upwardly revised level of 64.8 in December, previously reported as 64.5, citing consumer pessimism on the outlook for the economy. Lynne Franco, Director of the Conference Board Consumer Research Center commented: "Regarding the short term outlook, consumers are more upbeat about employment, but less optimistic about business conditions and their income prospects. Recent increases in gasoline prices may have consumers feeling a little less confident this month."

- Front Page Headline, Wall Street Journal – "U.S. Deficit Set to Exceed $1 Trillion Again: CBO. The Congressional Budget Office warns: 'Tax increases and spending cuts scheduled to take effect in January 2013, would slow the (U.S.) economy and raise the unemployment rate next year unless policy makers reach an agreement to prevent those changes from occurring, or offset their impact. While such an agreement would help the economy in the short term, it would also expand the federal budget over time, if not combined with other policy changes.' CBO Director Douglas Elmendorf commented: 'Policy makers must soon decide how to manage the near term economic strains, as well as future economic problems caused by rising government debt. As a country, the longer we wait to make the necessary difficult choices, the more troublesome they will become." In its semi-annual budget and economic forecast, the CBO projects a $1.2 trillion (U.S.) federal deficit for the fiscal year ending September 30, 2012, if Congress extends the temporary payroll tax cut through the end of this year. The deficit would be slightly smaller than in recent years, but still huge by historical standards. Mr. Elmendorf elaborated: 'The primary driver of the deficit later in this decade will be the cost of an aging American population, particularly the rising costs of government health-care programs.' For example, the CBO projected the government would spend $1.6 trillion (U.S.) on Social Security, Medicare and Medicaid in 2012, i.e. 44% of the federal budget. In 2022, the government will spend $3 trillion (U.S.) on those programs, or 54% of the federal budget.

WEDNESDAY, FEBRUARY 1ST

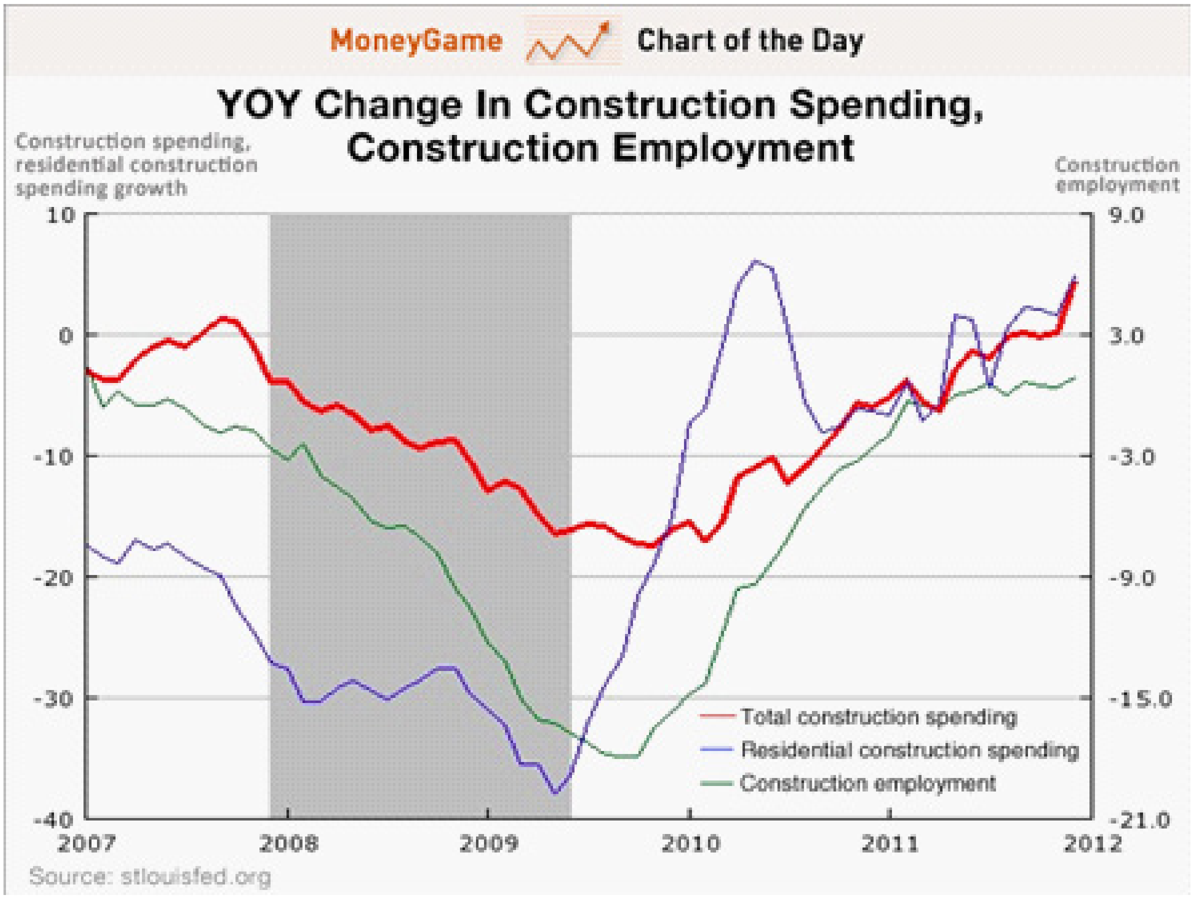
- New Jersey-based ADP Employer Services reports the U.S. private sector added 170,000 workers in January, reflecting job gains in small businesses and in the services industry

- The Tempe, Arizona-based Institute for Supply Management reports its U.S. manufacturing index rose to a reading of 54.1 in January, following a level of 53.1 in December

- Front Page Headline, Wall Street Journal – "AMR Seeks to Cut 15% of Work Force. The parent of American Airlines announces it will seek to cut 13,000 jobs and pensions in pursuit of $2 billion (U.S.) in annual cost savings. AMR wants to reduce labour costs by $1.25 billion (U.S.) per annum, or about 20%. That would include cutting its work force of 88,000 by about 15%, imposing new productivity measures and outsourcing some work. The company also plans to terminate its four underfunded pension plans, an initiative that would represent the largest pension default in U.S. history. In a letter to employees, AMR Chief Executive Officer Tom Horton stated: 'The world has changed around us and this our moment to adapt or lose the opportunity forever. We will end this journey with significantly fewer people, however, we will also preserve tens of thousands of jobs, which would have been lost had we not embarked upon this path. During this time, we are at great risk as others seek to acquire the company, or its assets, or break up the airline; so the best way for us to ensure that we remain in control of our own future is to make the necessary changes and complete our restructuring quickly."

- Front Page Headline, Wall Street Journal – "U.S. Auto Sales Hit Passing Lane. U.S. auto sales continued their upward surge in January, rising 11% on a year-over-year basis, their most brisk pace in nearly four years. Chrysler group LLC and Volkswagen AG each reported increases of more than 40% from a year ago, while most other auto makers posted solid gains. According to Autodata Corp. auto makers sold 913,287 cars and light trucks in January. The annualized sales pace was 14.18 million vehicles, up from December's pace of 13.56 million, the highest level since May 2008. Al Castignetti, Nissan's vice president of sales for North America, commented: "The shopping pattern has been much more robust. The availability of credit is more catering to the buyer than it was two years ago."

- Front Page Headline, Financial Times – "Sir Frederick Goodwin Stripped of Knighthood. The former chief executive officer of the Royal Bank of Scotland (RBS), Fred Goodwin, has been 'defrocked' of his knighthood, in the latest political concession to public anger in Britain over the arrogance of some senior bankers. Mr. Goodwin was dubbed Sir Frederick Goodwin in 2004 for his 'services to banking' and presided over a breakneck acquisition spree which ultimately led to the collapse of RBS in 2008. Mr. Goodwin courted further controversy by initially refusing to return any of his 16.9 million pound pension monies."



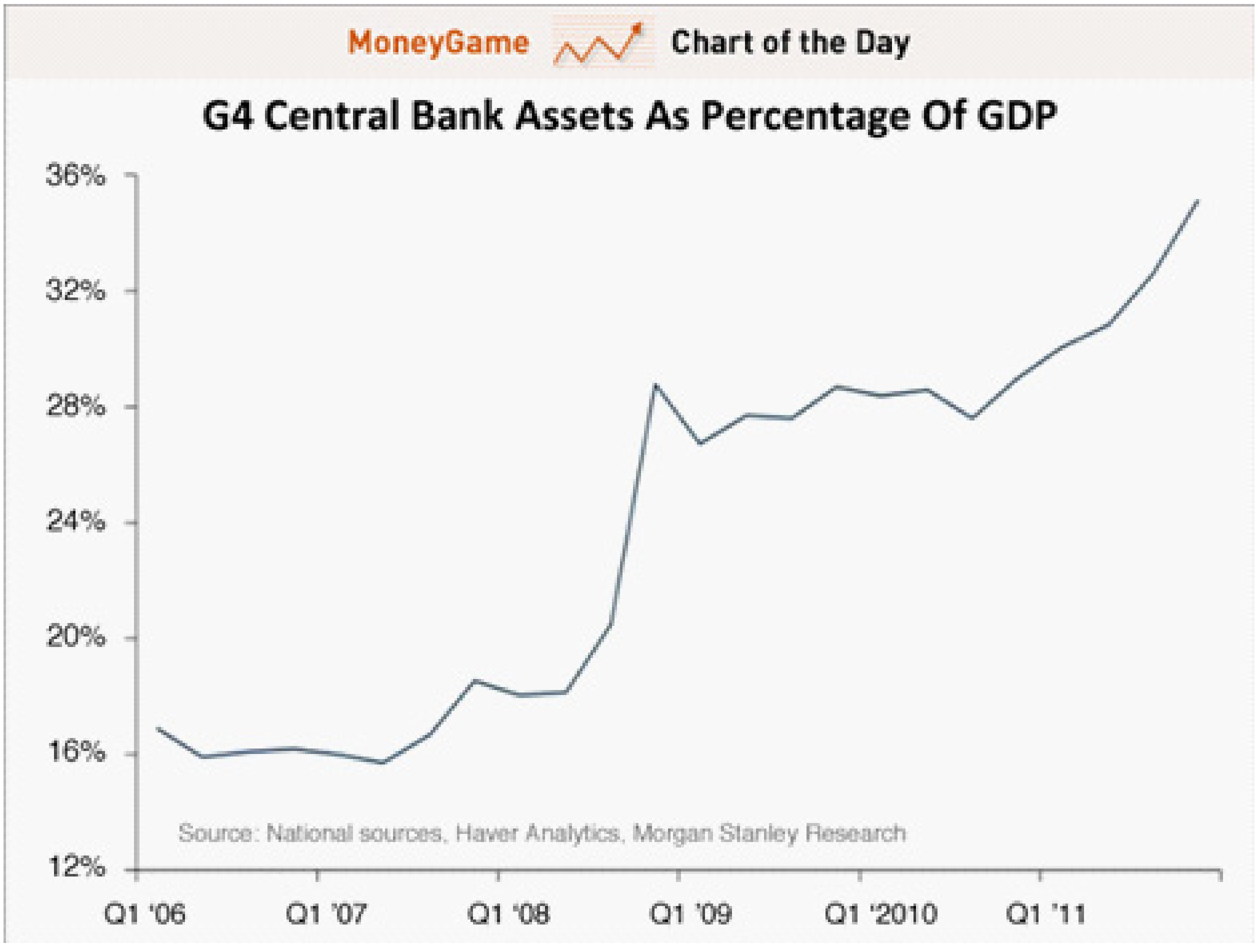
- The Commerce Department reports U.S. construction spending rose by 1.5% in December, the highest gain in four months. Michelle Meyer, a senior economist at Bank of America in New York, commented: "Given the ongoing shift from owning to renting and the lack of supply in the market, multifamily construction will continue to improve; albeit at a very slow pace."

- Front Page Headline, Daily Telegraph U.K. – "Bundesbank Sinks Deeper Into Debt. Germany's Bundesbank (central bank) has entirely exhausted its stock of private assets and amassed a quarter of a trillion euros in liabilities supporting the euro zone system, testing the political limits of European Monetary Union (EMU) solidarity in Germany. The operations are part of the European Central Bank's 'TARGET 2' network of automatic payments between the national central banks of the euro zone club. The Bundesbank has already provided 496 billion euros to countries in financial trouble; mainly Greece, Ireland, Italy and Spain. Professor Frank Westermann of Osnabruck University commented: 'This is reaching the danger point. It is already one and a half times the total budget of the German government. If any of the crisis countries exits the euro, or if there is an EMU break-up, the Bundesbank bears extreme risks."

German Chancellor Angela Merkel Source: Daily Telegraph U.K.

THURSDAY, FEBRUARY 2ND

- Front Page Headline, MarketWatch News – "Europe Making Fiscal Progress: Merkel. In a speech to the Chinese Academy of Social Sciences during a state visit to China, German Chancellor Angela Merkel related: 'A recent European Union (EU) agreement to move toward greater fiscal discipline was a sign of fiscal progress.' According to informed sources, Merkel's trip to



China was partly intended to reassure Beijing about the EU's fiscal health and to garner whatever financial support the Chinese government could provide to the European Financial Stability Fund (EFSF).

- The Labor Department reports U.S. initial claims for state unemployment benefits declined by 12,000 to 367,000 in the week of January 28th. while continuing claims fell by 130,000 to 3.44 million in the week ended January 21st. The number of people who have exhausted their traditional benefits and are now receiving emergency or extended benefits increased by about 43,100 to 3.5 million in the week ended January 14th.

- Front Page Headline, Globe and Mail – "Caution Urged in Sharp Deficit Reduction: Bernanke. In testimony before the House Budget Committee, U.S. Federal Reserve Chairman Ben Bernanke urges lawmakers to balance their desire to cut government deficits with policies that could foster economic growth over the short term: 'Even as fiscal policy makers address the urgent issue of fiscal sustainability, they should take care not to unnecessarily impede the current economic recovery. Fortunately, the two goals … are fully compatible.' Wake up call for Mr. Bernanke – Not when the current fiscal deficit is about to exceed $1 trillion (U.S.) for the fourth consecutive year and the national debt exceed $16 trillion (U.S.) by the end of the calendar year.

- Front Page Headline, Daily Telegraph U.K. – "Euro Zone Bailout Funds Insufficient: OECD. The international think tank Organization for Economic Cooperation and Development warns: ' The 440 billion euros of capital of the European Financial Stability Fund is not enough to support the funding requirements of indebted countries, particularly given that it has not found it easy to raise funds at a low cost. The only plausible mechanism was to give the EFSF a banking license, to enable the European Central Bank (ECB) to lend funds to the IMF to distribute; or to see if sovereign wealth funds could be cajoled with appropriate guarantees (possibly by the IMF) to provide the funds. The EFSF's replacement, the European Stability Mechanism (ESM) will have 80 billion euros of capital and a combined lending power of 500 billion euros. This too may not be sufficient, so further thought must be given to contingency plans."

FRIDAY, FEBRUARY 3RD

- The Labor Department reports U.S. non-farm payrolls increased by 243,000 in January, following an upwardly revised increase of 203,000 in December, previously reported as 200,000 – while the unemployment rate declined to 8.3% from 8.5% in December – citing broadly based hiring activity in manufacturing and construction, professional services, retail and health care services. At Long Wave Analytics, we see a problem with the Labor Department's 'seasonal adjustment' in the jobs statistics causing the U.S. 'official' unemployment rate to decline by 0.2% in January, when during that month, the Bureau of Labor Statistics reports the Labour Force Participation Rate fell to a new multi-decade low of 63.7%. Moreover, as reported in the Privateer and Zero Hedge newsletters, 'the non-seasonally adjusted tally of actual U.S. jobs has fallen by 2.9 million since the beginning of December.' Accordingly, our suspicions are aroused that the Obama administration is manipulating economics statistics under the guise of 'seasonal adjustment' to put a positive spin on the economic outlook during this presidential election year.

Table of the U.S. Labour Force Participation Rate

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
2002	66.5	66.8	66.6	66.7	66.7	66.6	66.5	66.6	66.7	66.6	66.4	66.3	
2003	66.4	66.4	66.3	66.4	66.4	66.5	66.2	66.1	66.1	66.1	66.1	65.9	
2004	66.1	66.0	66.0	65.9	66.0	66.1	66.1	66.0	65.8	65.9	66.0	65.9	
2005	65.8	65.9	65.9	66.1	66.1	66.1	66.1	66.2	66.1	66.1	66.0	66.0	
2006	66.0	66.1	66.2	66.1	66.1	66.2	66.1	66.2	66.1	66.2	66.3	66.4	
2007	66.4	66.3	66.2	65.9	66.0	66.0	66.0	65.8	66.0	65.8	66.0	66.0	
2008	66.2	66.0	66.1	65.9	66.1	66.1	66.1	66.1	65.9	66.0	65.8	65.8	
2009	65.7	65.8	65.6	65.6	65.7	65.7	65.5	65.4	65.1	65.0	65.0	64.6	
2010	64.8	64.9	64.9	65.1	64.9	64.6	64.6	64.7	64.6	64.4	64.5	64.3	
2011	64.2	64.2	64.2	64.2	64.2	64.1	64.0	64.1	64.1	64.1	64.0	64.0	
2012	63.7												

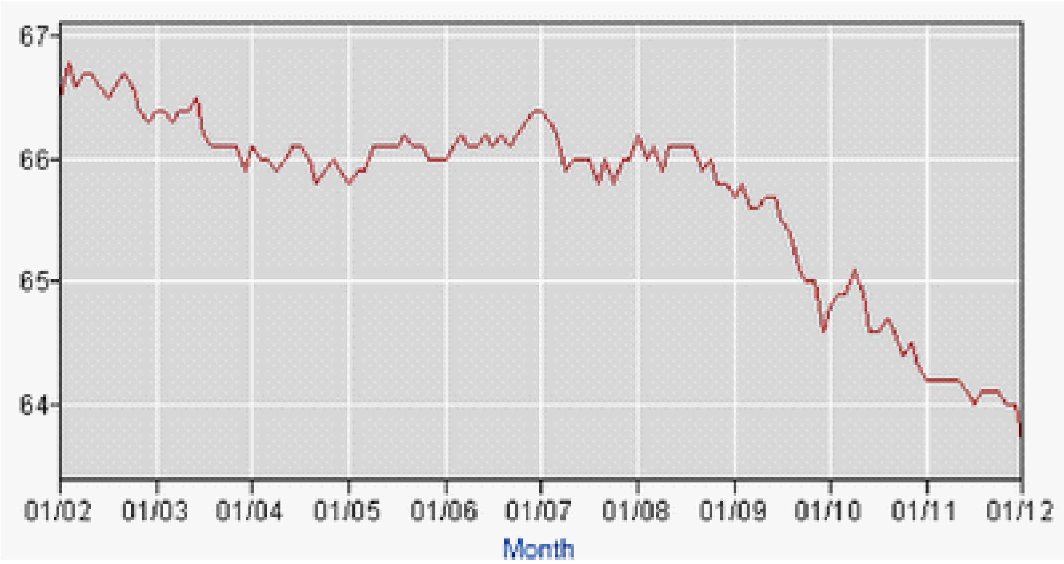
Source: Bureau of Labor Statistics

- Front Page Headline, Globe and Mail – "Greek Union, Employers Reject Wage Cuts. In a letter to the Greek government, the country's union and employer associations reject proposals for the minimum wage to be lowered and annual salaries to be paid to Greek workers in 14 installments; thereby, complicating 11th. hour negotiations between the Greek government and its euro zone creditors for a new 130 billion euro bailout plan."

- Front Page Headline, National Post – "Deficit Report Reveals Decrepit State of Ontario Finances. A new report by the Conference Board of Canada suggests the chances of Ontario balancing its budget by 2016-17 are slim to none. 'Only by projecting unrealistic levels of economic growth could Finance Minister Duncan and Premier McGuinty make that claim. The reality is that economic growth is likely to be much slower and for an extended period of time; due to the Province's aging population, a slowing manufacturing sector and a weak U.S. economy. It's unlikely the Ontario budget will be balanced before 2021-22 at the earliest, i.e. a decade from now, even if Ontario governments stick to an aggressive campaign of spending reductions.' Mr. McGuinty's willingness to do so is more than a little questionable. To balance the books by 2017, program spending growth would have to be limited to 0.7% a year, from a government that has increased spending by more than 6% a year on average since it came into power. Even if growth in health and education spending is limited to increases caused by inflation, demographic changes and population increases, Ontario won't achieve a balanced budget by 2021."

Ontario Premier Dalton McGuinty Source: National Post Files

Chart of the U.S. Labour Force Participation Rate



Source: Bureau of Labour Statistics

- Statistics Canada reports the Canadian economy added only 2,3000 jobs in January, sending the unemployment rate higher by 0.1% to 7.6%

- Front Page Headline, Washington Post – "U.S. Concerned about Israeli Statements Regarding Iranian Nuclear Threat. Speaking at a security forum attended by some of Israel's top intelligence and military leaders, Defense Minister Ehud Barak warns: 'Time is expiring for stopping Iran's nuclear advance, as its nuclear facilities disappear into newly constructed mountain bunkers. Whoever says later may find that later is too late.' The language reflects a deepening rift between Israeli and American officials over the urgency of stopping Iran's nuclear program, which western intelligence officials and nuclear experts believe could soon put nuclear weapons within the reach of Iran's rulers. While accepting the gravity of the Iranian threat, U.S. officials fear being blindsided by an Israeli strike that could have widespread economic and security implications and might only delay, not end, Iran's nuclear pursuits."

- Front Page Headline, New York Times – "Caterpillar to Close Assembly Factory in Ontario. A month after locking out its employees at Electro-Motive Canada, Caterpillar announces it will close a London, Ontario automotive factory which employs about 670 people. The lockout occurred after company contract demands – as interpreted by the Canadian Auto Workers Union – would have cut wages by 50%, substantially reduced benefits and significantly altered pensions for the factory's 470 unionized workers. In a brief statement, the parent company Progress Rail Services announced that production would be moved to other operations in North and South America.

Workers Picket a Caterpillar Dealership last month. Source: The Canadian Press via the AP.

CLOSING LEVELS FOR FRIDAY, FEBRUARY 3RD.		WEEKLY CHANGE
Dow Jones Industrial Average	12,862.23	+ 201.77 points
Spot Gold Bullion (March)	$1,740.30 (U.S.)	+ $8.10 per oz.
S&P / TSX Composite	12,577.28	+ 110.78 points
10-Year U.S. Treasury Yield	1.92%	+ 3 basis points
Canadian Dollar	100.64 cents (U.S.)	+ 0.71 cent
U.S. Dollar Index Future (Spot Price)	78.942 cents	+ 0.106 cent
WTI Crude Oil (March)	$97.84 (U.S.)	– $1.72 per barrel

Ian A. Gordon, The Long Wave Analyst www.longwavegroup.com

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