LONGWAVE group

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS

Monday, September 10th

Front Page Headline, Bloomberg News – **"Bankrupt Kodak to Cut 1,000 Additional Jobs.**

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Bankrupt photography pioneer Eastman Kodak announces plans for an additional 1,000 layoffs by the end of 2012, amid a downsizing corporate reorganization plan to focus on commercial printing. In a statement, Kodak's Chief Executive Officer Antonio Perez elaborated: "We recognize that we must significantly and expeditiously reduce our current cost structure, which is designed for a much larger, more diversified set of businesses. Also, reorganizing management will help accelerate the creation of a sustainable cost structure."

- The Bank of France reports the nation's industrial production rose by 0.2% in July while the manufacturing confidence index increased to a reading of 93, following a level of 90 in June. Dominique Barbet, an economist at BNP Paribas in Paris commented: "These (economic) numbers are going in the right direction, but their absolute level remains very low. (While) there's no recession, there's no (economic) growth either."

- Statistics Canada reports the nation created 34,300 jobs in August, but the bulk of the hiring was focused on part-time positions in the service sector, notably transportation and warehousing. The unemployment rate remained unchanged at 7.3%. Erin Weir, a research associate at the Canadian Centre for Policy Alternatives, commented: "The shift from construction into part-time service sector employment likely undermines job quality. In 2011, the average hourly wage in construction was $28.25 (CAD), more than in any service industry and double the average wage in low-paying service businesses such as retail, accommodation and food services."

- Front Page Headline, Bloomberg News – **"Shipping Magnate Invests $11 Billion (U.S.) in New Vessels.** From his London office, Norwegian John Fredriksen, a shipping magnate worth $11.2 billion (U.S.), manages the world's largest fleet of supertankers, the world's most valuable deep water drilling company and an armada of 128 other vessels which carry minerals, grains and liquefied gases. Through his companies such as Seadrill Ltd. and Golar LNG, Mr. Fredriksen is investing $7 billion (U.S.) in new rigs to pump oil from beneath the ocean floor and $4 billion (U.S.) in four dozen new vessels to transport liquefied natural gas, gasoline, propane and other fuels. While Mr. Fredriksen loves tankers, he's now trying to increase his dominance over the global circulation of liquid energy in most of its forms."

Liquified natural gas vessel the Methane Princess. Source: Courtesy of Golar LNG

- Front Page Headline, Globe and Mail – **"Could Salvaging the EMU Destroy Europe?** In an essay published on the weekend in the New York Review of Books, billionaire financier George Soros notes: 'German Chancellor Angela Merkel has now broken ranks with Jens Wiedman – Germany's Bundesbank President – thusly, with the German consensus view that unlimited European Union (EU) funds should not be devoted to rescuing the failed economies of southern Europe. This was a game-changing event. It committed Germany to the preservation of the European Monetary Union … The EU which will emerge from this process will be diametrically opposed to the idea of an EU that is the embodiment of an open society. It will evolve as a hierarchical system built upon debt obligations, instead of a voluntary association of equals. There will emerge two classes of states, creditors and debtors and the creditors will be in charge. The divergence in economic performance, instead of narrowing, will widen. Both human and financial resources will be attracted to the centre and the periphery will become permanently depressed. Germany will even enjoy some relief from its demographic problems by the immigration of well-educated people from the Iberian Peninsula and Italy, instead of less qualified Gastarbeiter (guest workers) from Turkey or Ukraine. However, the periphery will be seething with resentment. There are only two ways out of this political catastrophe. Either Germany must leave the EMU … or, become a benign hegemon and establish a Europe-wide fiscal regulation body devoted not to austerity and debt payment, but to the development of the export capacities of the southern states. This would be both expensive and extremely politically unpopular with increasingly isolationist German voters. However, it would guarantee a more stable and prosperous long-term future for Mediterraneans and Germans alike." **See also, Economic Winter – Will Germany Exit the European Monetary Union? August 17, 2012 and Economic Winter –The Ongoing Saga of the European Sovereign Debt Crisis, May 18, 2012.**

- Front Page Headline, Daily Telegraph U.K. – **"Germany's Constitutional Court Could Delay Ruling on ESM.** The Karlsruhe-based Constitutional Court announces it 'will examine whether to postpone' its ruling planned for Wednesday, regarding the European Stability Mechanism – the European Union's new bailout fund – and the EU fiscal pact, following a new legal challenge by Peter Gauweiler, a leading lawmaker from Chancellor Merkel's conservatives. In a statement issued yesterday, Mr. Gauweiler demanded: 'The ESM should not be ratified until the European Central Bank (ECB) retracts its self-authorization to become a hyper rescue fund.' ECB President Mario Draghi unveiled plans last week for potentially unlimited purchases of sovereign bonds out to three years in maturity, from EU member countries that request a bailout and fulfill strict policy conditions. German Central Bank President Jens Weidman was the sole dissenting voice in the decision.

Four judges of the German Constitutional Court. Source: Reuters News

Tuesday, September 11th

- Front Page Headline, Globe and Mail – **"Vast Crowds Demand Catalan Autonomy from Spain."** Hundreds of thousands of Catalans take to the streets of Barcelona, in an unprecedented show of mass support for autonomy from Madrid; blaming Spain's economic crisis for depressing their wealthy region. The local government reported the crowd was 600,000 strong, but the police estimated the number was as high as 1.5 million. Crowds waved red and yellow striped Catalan flags – one of the oldest still in use in Europe – and sang the Catalan national anthem on a national day one year shy of the tricentenary marking the conquest of Catalonia by King Philip V. Teresa Sabanes, a 53 year-old marcher from Santa Coloma de Gramanet remarked: 'This is obviously a blow for the government. People like me have come from everywhere. I don't think the politicians expected demonstrations this big. We feel that the central government is fooling with us. We Catalans are giving away a lot of money to Spain."

Demonstrators from across the Catalan region march in Barcelona.

Source: Albert Gea / Reuters

- The Commerce Department reports the U.S. trade deficit widened to $42 billion (U.S.) in July for the first time in four months, as the global economic slowdown took a toll on American exports. Carl Riccadonna, an economist at Deutsche Bank Securities in New York commented: "Global demand is (definitely) weakening. Economic activity in the second half will depend a lot on consumers, and that more than ever, means we must remain focused on the labour data and the confidence indices."

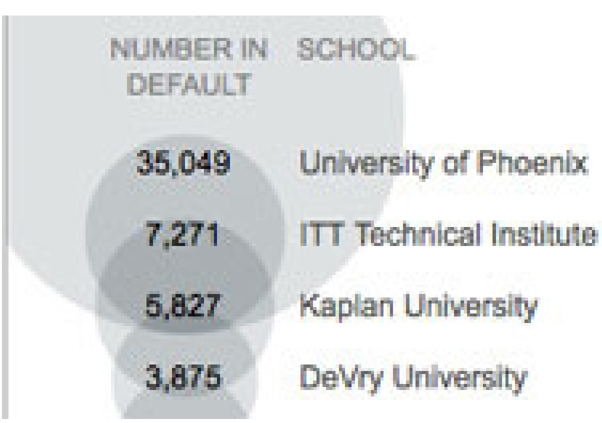
- Front Page Headline, Globe and Mail – **"Moody's Warns It Could Downgrade U.S. Sovereign Debt Rating.** In a statement, Moody's Investors Service asserted: 'Budget negotiations during the 2013 Congressional legislative session will likely determine the direction of the U.S. government's 'AAA' credit rating and negative outlook. If those negotiations fail to produce specific policies which enable stabilization and then a downward trend in the ratio of federal debt to gross domestic product (GDP) over the medium term, Moody's would expect to downgrade America's credit rating, probably to 'AA' (High)."

- Statistics Canada reports the nation's merchandise trade deficit widened to $2.3 billion (CAD) in July, citing the global economic slowdown, lower prices for some commodities and a strong currency – now above parity with the U.S. dollar – negatively impacting exports. Bank of Nova Scotia economist Derek Holt noted: "This is about as bad as it gets for Canadian exporters." Separately, in its annual report, the Department of International Affairs and International Trade portrayed Canada's merchandise trade as the lifeblood of the economy, accounting for one in five jobs and 63% of gross domestic product (GDP). In 2011, exports of goods and services rose by 11.8% to a record level.

- Front Page Headline, Wall Street Journal – **"U.S. Government Shutdown Is Unlikely but Fiscal Cliff Remains a Risk: Boehner.** In a news conference, U.S. House Speaker John Boehner (R., Ohio) warned: 'While Congress appears on track to avert a politically perilous fight over a government shutdown, I'm not particularly confident that Congress and the White House will reach an agreement in the final two months of the year to block the combination of tax and spending measures – the so-termed fiscal cliff – from taking effect early in 2013.' Having returned to work this week after a five week recess, Congress is preparing to pass just one major bill before returning to the campaign trail in October: a $550 billion (U.S.) measure to fund the government through March 2013. This will prevent the government from halting non-essential services when its fiscal year ends on September 30th., despite the fact that Congress failed to pass a single bill of the 12 spending bills that are required each year to fund the various government departments and agencies." **At Long Wave Analytics, we suspect that one of the reasons why Speaker Boehner is "not confident that Congress and the White House will reach an agreement to avoid the fiscal cliff" by the year-end is partly because he has signed Washington lobbyist Grover Norquist's Taxpayer Protection Pledge; as has Republican Presidential Nominee Mitt Romney and Republican Vice Presidential Nominee Paul Ryan. See also, Economic Winter, The Pathology of Debt and Erosion of Civil Liberties in America – The Taxpayer Protection Pledge: Grover Norquist's Hold on the GOP. February 1, 2012.**

- Front Page Headline, Zerohedge Viewpoint – **"As China's Gold Imports Rise Again, Will the Renminbi Become the Next Reserve Currency?** Following two months of declines, during July China's gold bullion imports from Hong Kong have increased again to a 3-month high of 75.8 metric tonnes. While it is notable that this number is double the 38.1 metric tonnes imported a year ago, year-to-date imports now total a record 458.6 metric tonnes, well above four times greater than the 7-month total of 103.9 metric tonnes in 2011. Far more important, is the fact that during the first seven months of 2012, China has imported nearly as much gold as the total holdings ... of the European Central Bank (ECB). If this pace was maintained during August, China will have imported more gold bullion this year than the ECB's entire official holding of 502.1 metric tonnes." **See also, Economic Winter, China's Renminbi: The World's Next Reserve Currency? April 10, 2012.**

- Front Page Headline, New York Times – **"Debt Collectors Cashing In on Student Loans.** As the number of people taking out government-backed student loans has exploded, so has the number who have fallen at least 12 months in arrears making payments. Approximately, 5.9 million people nationwide fall into this category, up about 33% within the last five years. In total, about one in every six borrowers with an outstanding loan balance is in default. According to a survey of state education officials, the amount of defaulted student loans totals $76 billion (U.S.), which is greater than the annual tuition for all students seeking degrees at public two-year and four-year colleges and universities. In its attempts to recover money on the defaulted loans, the Department of Education paid out in excess of $1.4 billion (U.S.) in fiscal 2011 to collection agencies. Hiding from the government is not easy. 'I keep changing my phone number,' relates Amanda Cordeiro, 29, from Clermont Fla., who dropped out of college in 2010 and has fielded as many as seven phone calls a day from debt collectors trying to recover her $55,000 (U.S.) in overdue loans. 'Over the last year, this is probably my fourth phone number. Also, I receive these letters about defaulting and just throw them in the bin.' Unlike private lenders, the federal government possesses extraordinary collection tools which it has extended to the collection firms. Ms. Cordeiro has already experienced the seizure of two tax refunds, while other debtors have witnesses their paychecks or Social Security contributions garnisheed. In fact, the government recoups about 80 cents for every dollar that goes into default. This is an astounding rate, considering most private lenders are lucky to recover 20 cents on the dollar on defaulted credit cards. While the recovery rate is impressive, critics contend that it has left the government with little incentive to try to prevent defaults in the first place. Although there are programs in place to assist struggling debtors, the companies hired to administer student loans are not remunerated enough for lengthy conversations to explain payment options to debtors. One consequence is that a government program called Income-Based Repayment has fallen short of expectations. Under the program, borrowers repay 15% of their discretionary income for up to 25 years, after which the balance of their loan is forgiven. However, participation has lagged because debtors are either unaware of the program, or are confused by its complexity. Paul Combe, President of American Student Assistance – a Boston-based loan guaranty agency – noted: 'If people were well informed, how many defaults could be averted? We are hurting people here.' For debtors, the decision to default could be disastrous, ruining their credit rating and increasing the amount they owe, with penalties up to 25% of their outstanding balance. There is no statute of limitations on collecting federally guaranteed student loans, unlike credit cards and mortgages; moreover, Congress has made it difficult for debtors to eradicate their debt via bankruptcy declaration. Only a small fraction of defaulters even attempt this route. John Ulzheimer, president of consumer education at SmartCredit.com – a credit monitoring service – cryptically concludes: 'You are either going to pay it, or you are going to die with it."



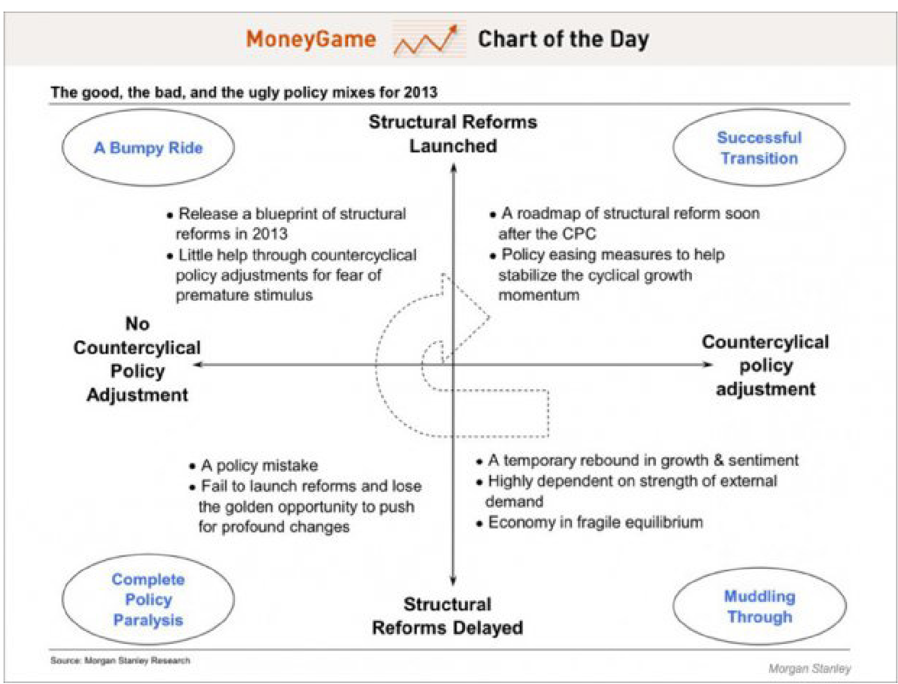
Wednesday, September 12th

- The U.S. Census Bureau reports the proportion of Americans living in poverty was 15% in 2011, basically unchanged from 2010, while the median annual household income declined by 1.5% to $50,054 (U.S.), a level last seen in 1996. **Numerically, total citizenry participation in the U.S. Supplemental Assistance Food Program (food stamps) is gradually approaching a national average of one million people per state.**

- Front Page Headline, Bloomberg News – **"Germany Can Ratify ESM with Liability Limit: Constitutional Court.** The Karlsruhe-based German Federal Constitutional Court dismisses motions designed to block the European Stability Mechanism, while ruling Germany's 190 billion euro contribution cannot be increased without legislative approval. In other words, Germany can ratify the ESM (the EU's newly-created bailout fund) if it includes binding caveats that it won't be forced to assume higher liabilities without the German parliament's consent. At a press briefing, Germany's Economy Minister and Vice Chancellor Philipp Roesler reacted: 'We are an important step closer to our goal of stabilizing the euro. It has always been the goal of this government to establish a clear limit and to include parliament in all important decisions."

German Economy Minister Philipp Roesler and Chancellor Merkel. Source: AP

- Front Page Headline, Business Insider- **"Four Likely Scenarios for Chinese Economy in 2013.** Weak Chinese economic data in August prompted Morgan Stanley to lower its forecast for the country's 2012 gross domestic product (GDP) growth to 7.5% from 8%; and 2013 GDP growth to 7.9% from 8.6%. Through various permutations and policy changes, analyst Helen Qiao compiled four likely economic scenarios for China in 2013."



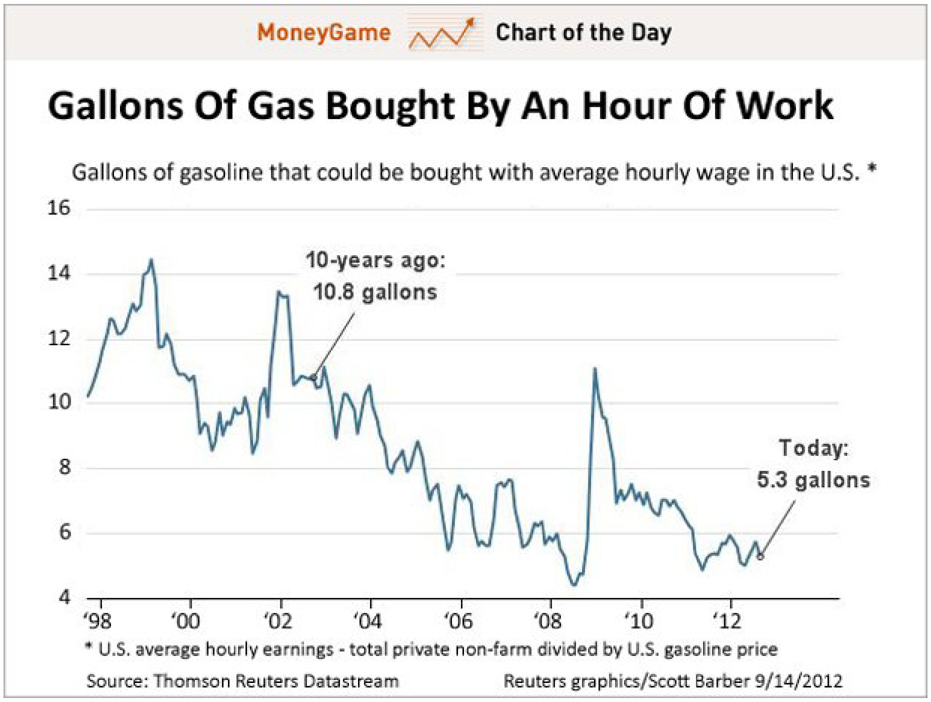
Thursday, September 13th

- The Labor Department reports U.S. initial claims for state unemployment benefits increased by 15,000 to 382,000 in the week ended September 8th. while continuing claims declined by 49,000 to 3.28 million in the week ended September 1st. The number of people who have exhausted their traditional benefits and are now receiving emergency or extended benefits from federal and state programs declined by about 41,000 to 2.23 million in the week ended August 25th. Brian Jones, an economist at Societe Generale in New York commented: "Essentially, the labor market is not gaining any traction whatsoever. The Fed chairman's concern about the labor market is warranted ... These are the kinds of numbers which suggest that the economy needs additional stimulus." Separately, the Labor Department reports the U.S. producer price index (PPI) rose by 1.7% in August, following a 0.3% increase in July.

- Front Page Headline, Globe and Mail – **"U.S. Federal Reserve Unleashes QE 3.** In a statement issued following its regularly scheduled two-day meeting in Washington, the Federal Open Market Committee (FOMC) announced it would deploy a third stage of purchases of fixed income securities (quantitative easing program # 3) focusing on long-term U.S. Treasurys and mortgage-backed securities, totaling about $85 billion (U.S.) per month between now and the year-end. Moreover, the FOMC pledged to maintain its Fed Funds rate within its current 0 – 0.25% range through at least mid-2015, as long as inflation remains muted: 'The FOMC is concerned that without further (monetary) policy accommodation, economic growth might not be strong enough to generate sustained improvement in labor market conditions. The FOMC will closely monitor incoming information on economic and financial developments in the coming months. If the outlook for the labor market does not improve substantially, the FOMC will (not only) continue its purchases of agency mortgage-backed securities, (but also) undertake additional asset purchases; as well as employ its other (monetary) policy tools when appropriate, until such improvement is achieved in the context of price stability." **At Longwave Analytics, we note that with the FOMC basically adopting an unlimited QE 3 program, Fed Chairman Ben Bernanke is taking direction from the current strategy policy being touted by European Central Bank President Mario Draghi.**

Friday, September 14th

- Front Page Headline, Business Insider – **"American Paycheck Buys Only Half as Much Gasoline as a Decade Ago.** Since 2002, the price of gasoline has moved considerably higher while wages in America have been driven lower. The chart below plots how many gallons of gasoline could be purchased at the average U.S. hourly wage since 1998."



- The University of Michigan / Thomson Reuters report their U.S. consumer sentiment index rose to a preliminary reading of 79.2 in September, following a final reading of 74.3 in August. This sentiment gauge surveys consumers regarding their personal finances; as well as their views on business and purchasing conditions.
- The Commerce Department reports U.S. retail sales rose by 0.9% in August, following a downward revision to a 0.6% gain in July. Millan Mulraine, a strategist at TD Securities in New York commented: “One can take some encouragement from this report, however, it’s probably not as strong as the headline number suggests. The price of gasoline will probably make a dent as it diverts from discretionary spending.”
- The Federal Reserve reports U.S. industrial production at the nation’s factories, mines and utilities declined by 1.2% in August, following a revised 0.5% gain in July. Guy Berger, an economist at RBS Securities in Stamford, Connecticut, commented: “There is a broad weakness in today’s numbers. Manufacturing is clearly decelerating, thereby reducing its contribution to gross domestic product (GDP).”
- The Labor Department reports the U.S. consumer price index (CPI) rose by 0.6% in August – the most in three years – and by 1.7% on a year-over-year basis, citing higher gasoline prices. Ryan Sweet, an economist at Moody’s Analytics in West Chester, Pa. commented: “We think inflation will remain benign for some time. The consumer is still very price sensitive because, not only does the unemployment rate remain at a high level, but also, wage growth is barely keeping pace with inflation.”
- Statistics Canada reports the nation’s factory sales fell by 1.5% to $48.3 billion (CAD) in July – the third drop in five months – citing declines in the production of transportation equipment, specifically aerospace products; as well as motor vehicles

CLOSING LEVELS FOR FRIDAY, SEPTEMBER 14TH.		WEEKLY CHANGE
Dow Jones Industrial Average	13,593.37	+ 286.73 points
Spot Gold Bullion (December)	$1,772.70 (U.S.)	+ $32.20 per oz.
S&P / TSX Composite	12,499.47	+ 231.46 points
10-Year U.S. Treasury Yield	1.87%	+ 20 basis points
Canadian Dollar	102.97 cents (U.S.)	+ 0.81 cent
U.S. Dollar Index Future (Spot Price)	78.835 cents	– 1.335 cents
WTI Crude Oil (October)	$99.00 (U.S.)	+ $2.58 per barrel

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