Monday September 24, 2012

LONGWAVE group

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS

Monday, September 24th

Front Page Headline, Globe and Mail - **"IMF to Reduce Global Economic Outlook.**

Monday, September 24th

In a speech to the Washington-based Peterson Institute for International Economics, International Monetary Fund Managing Director Christine Lagarde warns: 'The global economy is still fraught with uncertainty, still far from where it needs to be. At the IMF we continue to project a gradual (economic) recovery, however, global growth will likely be a bit weaker than the 3.5% rate we anticipated for 2012 as recently as last July … We have seen positive equity market reactions before which turned out to be short-lived. This time we need a sustained (economic) rebound, not a bounce. If this time is to be different, we need certainty, not uncertainty. We need decision takers to be real action makers. We need delivery. The biggest risk facing the global economy is Europe. Leaders there must finally agree on a banking union to restore confidence in the financial system and individual governments must make structural changes to their economies that will boost (economic) growth." The IMF will issue its revised global economic forecast for 2012 at its annual meeting in Tokyo in early October.

- The Munich-based Ifo Institute reports its business climate index – based upon a survey of 7,000 executives – declined to a reading of 101.4 in September, following a level of 102.3 in August; the 5th. consecutive monthly decline and the lowest reading since February 2010. Holger Schmieding, an economist at Berenberg Bank in London, commented: "The widely watched Ifo survey casts a shadow over our hope that the German economy will return from its current (state of) stagnation to (renewed) growth before the end of the year."

- Front Page Headline, Daily Telegraph U.K. – **"Bundesbank Castigates IMF for Overstepping Its Legal Mandate.** In its monthly report, the German Bundesbank rails: 'The International Monetary Fund is evolving from a liquidity mechanism into a bank. This is neither in keeping with the legal and institutional role of the IMF, or with its ability to handle risks. While the IMF was right to help rescue Greece, Ireland and Portugal, monitoring levels are slipping and there has been a watering down of standards. The scale of loans risks overwhelming the IMF's institutional structure."

- Front Page Headline, Washington Post – **"Higher Taxation Is Sinking Maryland.** According to fiscal policy reports from Maryland's General Assembly, since 2007, the state has increased taxes and fees 24 times, removing an additional $2.4 billion (U.S.) out of the economy each year. Between 2007 and 2010, Maryland witnessed the largest taxpayer exodus in the region, with nearly 31,000 residents leaving the state, according to the most recent IRS figures. Approximately 11,500 individuals in taxpayer households moved to Virginia with a net loss to Maryland of $390 million (U.S.) in annual incomes. A close second in attracting former Marylanders was North Carolina. The U.S. Census Bureau reported almost 6,500 small businesses either folded or moved at the same time."

Tuesday, September 25th

- The S&P/Case Shiller 20-U.S. city index posts a 1.6% house price increase in July, following an advance of 2.3% in June. For the 3rd. consecutive month, all 20 cities posted housing price gains. David Blitzer, Chairman of the Index Committee at S&P Dow Jones Indices commented: "Single-family housing starts are well ahead of last year's pace; existing home sales are up; the inventory of homes for sale is down and foreclosure activity is slowing."

- Front Page Headline, MarketWatch News – **"Greece Requires More Time to Stabilize Finances.** Citing senior European Union diplomats in Brussels, the daily Suddeutsche Zeitung (South German Newspaper) reports: 'Greece needs at least two more years to get its fiscal house in order. Not only will Greece be unable to finance its budget from 2015 without additional assistance, but also, the goal of completely financing its debt in the fixed income markets from 2020 seems unlikely.' **See also, Economic Winter, Will Germany Exit the European Monetary Union? (2) – Greece: Ask Not for Whom the Bell Tolls, It Tolls for Thee, September 21, 2012.**

- The New York-based Conference Board reports its U.S. consumer confidence index rose to a reading of 70.3 in September, following a level of 61.3 in August. Paul Ashworth, an economist at Capital Economics in Toronto, commented: "Most of the gain (in the index) seems to have been driven by a rebound in equity prices over the past month. Taking it at face value, it's obviously a positive for (consumer) spending, which has been only moderate lately.'

- Front Page Headline, Bloomberg News – **"Staples to Close 60 Stores Amid Corporate Reorganization Plan.** Framingham, Mass.-based Staples Inc., America's largest office supplies chain, announces 45 store closures in Europe and 15 store closures in the U.S. as part of a corporate reorganization plan to reduce costs by $250 million (U.S.) annually. In a statement, Chief Executive Officer Ronald Sargent noted: 'The closings will result in total pre-tax charges of $1.12 billion (U.S.) in the fiscal year ending January 31, 2013. The pre-tax savings will be generated by the end of fiscal 2015.' Joe Feldman, an analyst at Telsey Advisory Group in New York commented: 'The office supplies business has really been under pressure for several years from the onset of the recession. It's reliant upon economic growth and small business formation, and we've seen a lack of both."

- Statistics Canada reports the nation's retail sales rose by 0.7% to $39 billion (CAD) in July, citing higher sales of automobiles, trucks and auto parts; as well as general merchandise. Retail sales were broadly based with gains registered in all provinces.

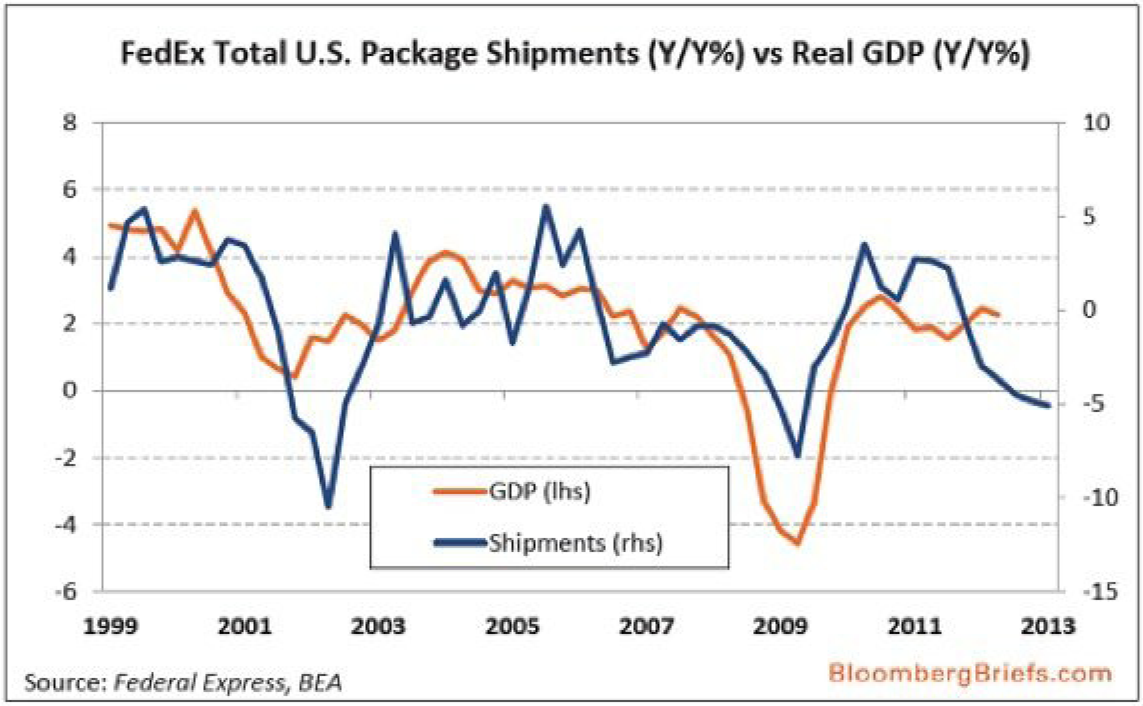
- Front Page Headline, Globe and Mail – **"Spain Feels Full Fury of Financial Crisis.** Spain feels the multifaceted fury of the financial crisis as financing costs surge, protestors march on parliament in Madrid and a political rift widens with debt-laden Catalonia. The challenges to Mariano Rajoy's government are multiplying as it faces growing resistance to austerity measures aimed at reducing the public deficit. As the government prepares for the release of its austerity budget for 2013 on Thursday, Mr. Rajoy continues to be reluctant to request a formal financial bailout from the European Stability Mechanism. Meanwhile, the Spanish Military Association (SMA) warns: 'Those who cooperate or allow the fracture of Spain should respond with all the utmost rigour in the courts – in the field of military courts – by the serious charge of high treason." **See also, Economic Winter, Will Germany Exit the European Union? (2) – The Pain in Spain Is Far From on the Wane (2), September 21, 2012.**

Spanish protestors clash with police on the steps of parliament. Source: Associated Press

Spanish police charge into the protestor fray wielding batons. Source: Reuters News

- Front Page Headline, Wall Street Journal – **"ECB's Bond Purchase Plan in Germany's Interest: Draghi**. In an address to the annual meeting of the Federation of Germany Industry in Berlin, European Central Bank President Mario Draghi launches a robust defense of the ECB's unlimited bond purchase program – termed 'Outright Monetary Transactions' – arguing: 'The ECB's Governing Council … chose to take action within its mandate to restore the normal transmission of monetary policy across all parts of the euro area. While the ECB can build a bridge to a stable future, I urge politicians to forge ahead with fiscal and structural reforms that will provide longer term solutions' (for the sovereign debt problem). **While Mr. Draghi has yet to provide details regarding the implementation of unlimited 'sanitized' bond purchases, German Chancellor Merkel has stated she wants Greece to remain in the European Union. Wake-up call for Mr. Draghi and Ms. Merkel: What would be achieved by the ECB purchasing Greek debt, when the fundamental problem in Athens is a chronic erosion of the public service sector – now rife with bribery and corruption – a situation that the Greek government and the European Union choose to ignore.**

- Front Page Headline, Bloomberg Economic Briefs – **"FedEx Corp. Cuts 2013 Profit Forecast.** FedEx Corp., an economic bellwether as operator of the world's largest cargo airline, reduces its profit outlook for the second time this year, citing a slower (global) economy. FedEx Chief Executive Officer Fred Smith warned: 'Exports around the world have contracted and the (monetary) policy choices in Europe, the U.S. and China are having a (negative) effect on global trade. Our U.S. gross domestic product (GDP) forecast is now 2.2% for 2012 and 1.9% for 2013; both are 0.5% lower than our previous projection."



- The Building Industry and Land Development Association (BILD) reports sales of new homes and condominiums in the Greater Toronto Area (GTA) declined to 1,242 units in August, the lowest since March 2009. BILD President and CEO Brian Tuckey commented: "The Canadian federal government has been working on reducing household debt levels and recently adjusted mortgage lending rules. August was the first month with the new rules in place and it appears these regulations have (negatively) impacted consumer confidence, resulting in significantly reduced sales of new homes (in the GTA). During the next three months, BILD will be carefully monitoring new (GTA) home sales to determine if this decline becomes a trend."

Wednesday, September 26th

- The Commerce Department reports U.S. new home sales declined slightly to an annual rate of 373,000 units in August from an upwardly revised annual pace of 374,000 units in July, previously reported as 372,000 units; as increased demand forced prices up 11.2%

- The Conference Board of Canada reports its index of consumer confidence increased by 6.7 points to a reading of 82.2 in September, but remains below the 100 point benchmark level reset 10 years ago, citing: "On the question of current personal finances, this marks only the second time in the past two years that positive responses have outnumbered the negative ones."

- Front Page Headline, Globe and Mail – **"Greek Demonstration Turns Violent.** Police clash with protestors hurling fire bombs in central Athens, after an anti-government rally – called as part of a general strike – turned violent. Riot police used tear gas and pepper spray against several hundred demonstrators after the violence erupted near the country's parliament. About 50,000 people joined in the union-organized march including everyone from shopkeepers and pharmacists to teachers, customs workers and car mechanics. Meanwhile, a finance ministry official confirmed to the press that Finance Minister Stournaras and Prime Minister Samaras have drafted a new 11.5 billion euro ($14.8 billion U.S.) austerity package of spending cuts and tax hikes, as demanded by the country's international lenders.

A Greek policeman stands in front of burning fire bombs.

Source: Agence France-Presse/Getty Images

- Front Page Headline, Washington Post – **"In a New Book, Sheila Bair Faults Bush and Obama Officials.** According to former FDIC Chair Sheila Bair, the Bush and Obama administrations largely ignored the dire straits of U.S. homeowners while focusing too narrowly on the well-being of Wall Street during the financial crisis. 'Bull By the Horns' is authored by Ms. Bair and accuses both administrations' top advisors of paying little more than lip service to mortgagors at risk of foreclosure; instituting programs they knew were likely to fail and ignoring her recommendations about how to improve them. By contrast, Ms. Bair was critical of Treasury Secretary Timothy Geithner, who was willing to go to great lengths to rescue the nation's top banks, without demanding accountability from top financial executives. Ms. Bair noted: 'The policies were all focused on making the banks profitable again.' Unsurprisingly, 'Bank of America President Ken Lewis was seen as somewhat of a country bumpkin by New York executives … As a deal maker, his skills were clearly wanting', citing his ill-fated acquisitions of subprime mortgage lender Countrywide Financial and investment banker Merrill Lynch."

Timothy Geithner and Sheila Bair in Washington on October 1, 2010.

Source: Associated Press

Thursday, September 27th

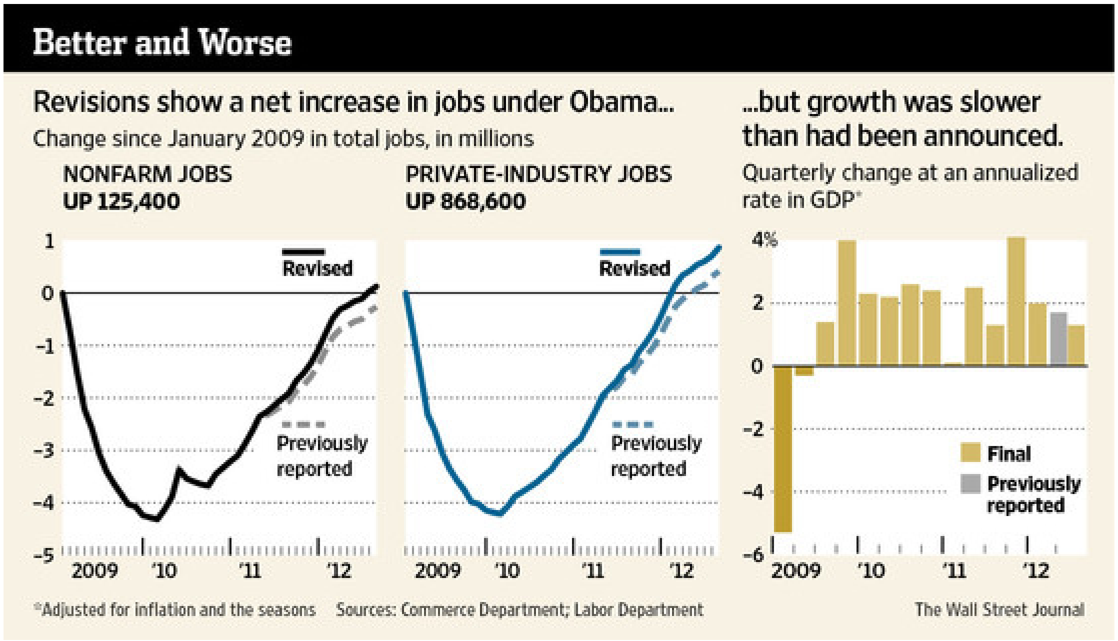
- Front Page Headline, Bloomberg News – **"Spain Pledges Budget Cuts to Meet Deficit Target.** Spain's Budget Minister Cristobal Montoro announces new austerity measures citing: 'It's a major initiative for the reduction of the budget deficit.' The budget deficit target for 2013 has been set at 4.5% of GDP compared with a 6.3% goal for 2012. Antonio Barroso, an analyst at Eurasia Group in London, noted: 'Spain's new austerity package is hoped to limit demands that would be attached to any bailout deal."

- The Commerce Department reports U.S. durable goods orders – those products intended to last for at least three years – excluding airplanes and automobiles, declined by 1.6% in August, following a drop of 1.3% in July. However, total bookings plunged by 13.2% last month as demand for private aircraft collapsed. Ethan Harris, an economist at Bank of America in New York, commented: "The corporate sector is becoming very nervous, from a combination of worries about Europe, concerns about the (approaching) fiscal cliff and a general lack of confidence in the (economic) recovery."

- The National Association of Realtors reports its index of pending U.S. home sales declined by 2.6% in August, following a revised gain of the same percentage in July. Tom Porcelli, an economist at RBC Capital Markets in New York commented: "It's going to be really difficult for the housing market to gain much momentum here if the employment backdrop doesn't cooperate and that's exactly what's happening."

- The Commerce Department reports U.S. gross domestic product (GDP) grew at a seasonally adjusted annual pace of 1.3% in the 2nd. quarter, downwardly revised from the initial estimate of 1.7% and slower than the 2% pace in the 1st. quarter. The revision reflected lower consumer spending and exports; together with depleted farm stockpiles due to the Midwest drought.

- The Labor Department reports U.S. initial claims for state unemployment benefits declined by 26,000 to a seasonally adjusted 359,000 in the week ended September 22nd. while continuing claims fell by 3,000 to 3.27 million in the week ended September 15th.



Friday, September 28th

- Fitch Ratings affirms the United Kingdom's AAA sovereign credit rating, but warned: "Since the United Kingdom's credit rating is underpinned by a high income, diversified and flexible economy; as well as robust institutions and a high degree political and social stability, the risk of a fiscal financing crisis remains negligible. However, weaker-than- expected gross domestic product (GDP) growth and a sizeable budget deficit this year have increased pressure on the country's credit rating, so the outlook on the (sovereign) rating remains negative."

- The Commerce Department reports U.S. consumer spending rose by only 0.1% in August, following a gain of 0.4% in July. Joshua Shapiro, an economist at Maria Fiorini Ramirez Inc. in New York, commented: "The U.S. is going to experience more of the same … very slow growth in consumer spending. This is hardly surprising given the lack of income growth and what's transpiring in the labor market."

- Bank of America Corp. (B of A) agrees to pay $2.43 billion (U.S.) to shareholders who suffered losses during the bank's acquisition of Merrill Lynch and Co. in the largest settlement to date of a class-action shareholder lawsuit, stemming from the financial crisis in 2008. B of A will incur a $1.6 billion (U.S.) litigation expense and may post a loss in the current quarter, after projecting that legal costs, valuation adjustments and tax charges will reduce earnings per share by about 28 cents (U.S.). In a statement, B of A Chief Executive Officer Brian Moynihan noted: "Resolving this litigation removes uncertainty and risk and is in the best interests of our shareholders. As we work to put these long-standing issues behind us, our primary focus is on the future and serving our customers and clients." **This record litigation settlement, combined with B of A's recent layoff announcement of 16,000 employees by the year-end, underscores the pathetic and sorrowful legacy of former B of A President Ken Lewis. See also, Economic Winter – The Clash of Cultures, February 2, 2009.**

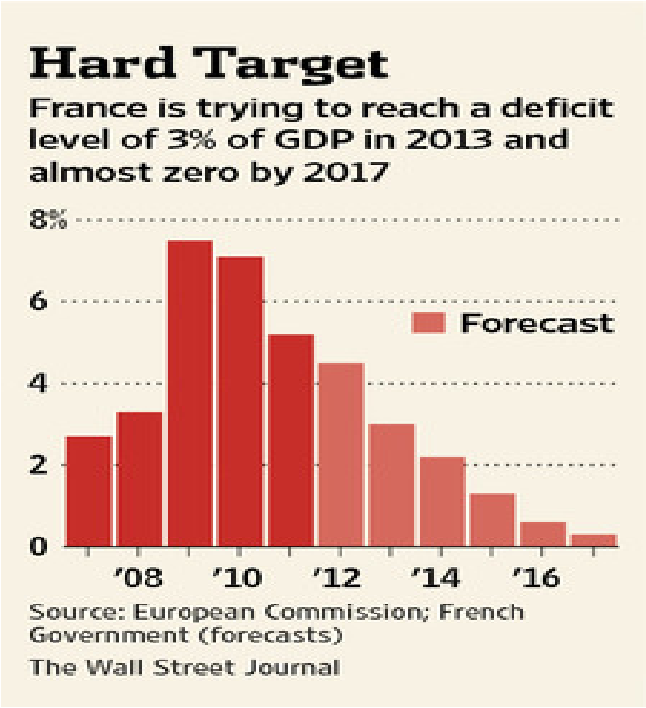
- The U.S. Education Department reports the student loan default rate rose to a record 13.4% – for the first 3 years that student are required to make payments – as at the period ended September 30, 2011. In a statement, U.S. Secretary of Education Arne Duncan pledged: "We continue to be concerned about student loan default rates and want to ensure that all borrowers have the tools to manage their debt. In addition to helping borrowers, we will also hold schools accountable for ensuring their students are not saddled with unmanageable student loan debt." The data follows complaints that commission-driven debt collectors whom the government hires, aren't informing students about affordable options to repay their debt; especially a plan which allows them to make payments according to their incomes. Cumulatively, American students have borrowed $1 trillion (U.S.) to pay for higher education, surpassing credit card debt.

- The HSBC Holdings / Markit Economics purchasing managers' index for China's manufacturing sector rose slightly to a final reading of 47.9 in September, compared with a level of 47.6 for August, citing continuing low domestic and external demand

- Front Page Headline, Bloomberg News – **"Obama Cabinet Fails to Comply with the FOIA.** On his first day in office in January 2009, U.S. President Barack Obama ordered federal officials to "usher in a new era of open government by acting promptly to make government information available to the public." According to an analysis of open government requests by Bloomberg News, after four years in office, President Obama's administration hasn't met those goals; failing to comply with the requirements of the Freedom of Information Act. Nineteen of 20 Cabinet-level agencies have ignored the law requiring the disclosure of public information regarding the cost of travel by top administration officials. In total, just eight of the 57 federal agencies met Bloomberg's request for those documents within the 20-day window required by the FOIA."

- Front Page Headline, Globe and Mail – **"Ottawa Narrows Budget Deficit in April-July Period.** In its latest monthly issue of the Fiscal Monitor, Finance Canada reports the federal government posted a $3 billion (CAD) deficit from April to July, compared with a $5.9 billion (CAD) deficit within the same period a year ago. While the Fiscal Monitor usually provides some insight into the federal government's spending restraint efforts, Parliamentary Budget Officer Kevin Page has been frustrated at Ottawa's refusal to provide detailed explanations of where federal departments are cutting spending in order to balance the federal budget by fiscal 2016."

- Front Page Headline, Wall Street Journal – **"French Budget Assails Businesses and the Rich with Higher Taxes.** President Hollande's government pledged: "Reducing the budget deficit to 3% of gross domestic product (GDP) in 2013 from an estimated 4.5% of GDP in 2012 is indispensable in preventing France from plunging into a hazardous debt spiral, comparable to what has already left several euro zone countries shunned by financial markets, or forced to borrow at exorbitant interest rates." The new budget increases the top marginal income tax rate to 45% from 41% and contains a special tax on incomes above on million euros ($1.3 million U.S.) a year, with about 1,500 individuals consequently subjected to an overall rate of 75%. They will pay on average 140,000 more euros in taxes next year. The 75% levy, which the government stated would only be in place for two years, has sparked outrage among business leaders who predict it will cause an exodus of talent and entrepreneurs."



- Front Page Headline, Wall Street Journal – **"Spain Warns of Wider Budget Gap.** Spanish Budget Minister Cristobal Montoro announces: 'The government forecasts its budget deficit will be 7.4% of gross domestic product (GDP) this year. Excluding the impact of initiatives to assist banks to write down a massive pile of toxic real estate assets, Spain will comply with the deficit target of 6.3% of GDP for 2012, to which it has agreed with the European Union (EU). Spanish authorities estimate that the country might need about 40 billion euros of the 100 billion euro EU credit line, after an independent audit of the banking system revealed a capital shortfall of 53.75 billion euros. However, as the country's financing costs remain at unsustainable levels, the Spanish government itself might soon be forced to request another bailout to meet its own financing requirements." **In the meantime, Moody's Investors Service – which had placed Spain on credit watch last June – may be preparing to downgrade Spain's sovereign debt credit rating to junk status, as a result the recent independent audit (read stress test) results for the country's banks. See also, Economic Winter, Will Germany Exit the European Monetary Union (2) – The Pain in Spain Is Far From on the Wane (2), September 21, 2012.**

CLOSING LEVELS FOR FRIDAY, SEPTEMBER 28TH.		WEEKLY CHANGE
Dow Jones Industrial Average	13,437.13	– 142.34 points
Spot Gold Bullion (December)	$1,773.90 (U.S.)	– $4.10 per oz.
S&P / TSX Composite	12,317.46	– 66.14 points
10-Year U.S. Treasury Yield	1.63%	– 12 basis points
Canadian Dollar	101.71 cents (U.S.)	– 0.71 cent
U.S. Dollar Index Future (Spot Price)	79.890 cents	+ 0.509 cent
WTI Crude Oil (November)	$92.19 (U.S.)	– $0.70 per barrel

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