Monday October 22, 2012

LONGWAVE group

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS

Monday, October 22nd

Front Page Headline, Bloomberg News – **"Greek Austerity Measures Risk Great Depression.**

Monday, October 22nd

- The Greek economy has contracted at a rate of 18.4% over the last four years approaching the Great Depression levels endured by Germany and the United States. During the period between 1929 and 1933, the U.S. gross domestic product (GDP) declined by 27%. The International Monetary Fund (IMF) is forecasting a further 4% drop in Greece's GDP in 2013, as the country struggles to reduce its debt under harsh austerity measures, in exchange for $300 billion (U.S.) in rescue funds. Charles Dumas, chairman of Lombard Street Research in London commented: 'Austerity has been destroying the country's tax revenue, therefore thwarting the intended economic recovery. However, there is no avoiding austerity measures because the Greeks have no borrowing power. The deficits are there.' **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 Japanese Finance Ministry reports Japan's trade deficit widened to 558.6 billion yen ($7 billion U.S.) in September on a year-over-year basis, citing a 14% decline in exports to China amid a territorial dispute over the sovereignty of the Senkaku Islands. Japan's Economy Minister Seiji Maehara implored the Bank of Japan for more stimulus action stating: "The nation is falling behind in its economic recovery and is at risk of another credit rating downgrade of its sovereign debt." Yoshimasa Maruyama, chief economist at Itochu Corp. in Tokyo commented: "There's a strong chance that Japan's economy will record two consecutive quarters of contraction through December. The economic downturn in advanced countries is spreading to emerging markets."

- Eurostat – the European Union's statistics office – reports the aggregate budget deficit of the 17-member countries in the European Monetary Union (EMU) declined to 4.1% of gross domestic product (GDP) in 2011from 6.2% in 2010, citing the introduction of expenditure cuts and higher taxes. However, euro zone outstanding public debt increased to 87.3% of GDP in 2011 from 85.4% in 2010.

- Front Page Headline, Daily Telegraph U.K. – **"PRA Will Have No Tolerance for Banks 'Too Big To Fail'.** In an interview, Andrew Bailey, senior manager at the Financial Services Authority (FSA), who will manage Britain's new banking regulator – the Prudential Regulation Authority – commencing in April 2013,warns: 'The PRA will not be a zero failure regime; rather one where firms can fail in an orderly way without major detriment to the wider system. The new regulator will be looking closely at banks' business models to ensure their sustainability.'

- Statistics Canada reports the nation's retail sales rose by 0.3% to $39.1 billion (CAD) in August, citing greater demand for gasoline and higher sales at general merchandise stores

Tuesday, October 23rd

- Front Page Headline, Globe and Mail – **"Bank of Canada Maintains Bank Rate at 1%.** In his latest monetary policy statement, central bank Governor Mark Carney asserts: 'Over time, some modest withdrawal of monetary policy stimulus will likely be required, consistent with achieving the 2% inflation (rate) target. The timing and degree of any such withdrawal will be weighed carefully against global and domestic developments, including the evolution of imbalances in the household sector … Canada's economic expansion remains moderate, as consumer spending and business investment offset feeble demand for exports."

- In its monthly bulletin released in Madrid, the Bank of Spain reports: 'The country's gross domestic product (GDP) contracted by 0.4% in the 3rd. quarter ended September 30th. matching the contraction rate in the 2nd. quarter. On a year-over-year basis, Spain's GDP probably contracted by 1.7%, as job losses continued, households dipped into their savings and low disposable income reduced their ability to pay down debt.' Presenting his budget for fiscal 2013 to Parliament in Madrid, Spain's Budget Minister Cristobal Montoro stated: 'In 2012, we definitely will comply with our deficit target (of 6.3% of gross domestic product).' **See also, Economic Winter, Will Germany Exit the European Monetary Union (2)? – Spain: The Pain in Spain Is Far From on the Wane (2) – September 21, 2012.**

- Front Page Headline, Wall Street Journal – **"Weak Global Industrial Demand Hits DuPont.** Chemical giant E.I. DuPont de Nemours reports 3rd. quarter earnings declined by 98% on a year-over-year basis, citing 'stalled infrastructure projects in China; as well as reduced demand for titanium dioxide products and photovoltaic cell units.' As a result, DuPont has announced a corporate restructuring plan which will reduce costs by $450 million (U.S.) and generate 1,500 employee layoffs over the next 12 to 18 months. At the low of the day, DuPont's share price declined by almost 10% to $45.10 (U.S.).

- Front Page Headline, Financial Times – **"Bank of England Stimulus Reaching Limit: King.** In a bleak assessment of the U.K. economy, Bank of England Governor Sir Mervyn King warned: "I urge Britain to be patient in the face of a difficult economic adjustment, which may force younger generations to live under its shadow for a long time to come. I am not sure that advanced economies in general will find it easy to get out of their current predicament (of debt) without creditors acknowledging further losses, significant write downs of asset values and a recapitalization of their financial systems … There are limits to the Bank's policy of quantitative easing. Printing money is not simply 'manna from heaven' (because) there are no short cuts to the necessary adjustment in our economy. When the factors leading to an (economic) downturn are long-lasting, only continual injections of stimulus will suffice to sustain the level of real (economic) activity. Obviously, this cannot continue indefinitely." **Is it finally becoming apparent to the British central banker that the global economy is still in the grip of the Kondratieff winter cycle, during which time there will be no meaningful GDP growth until the deleveraging process has run its course?**

Bank of England Governor Sir Mervyn King. Source: Financial Times

Wednesday, October 24th

- The Commerce Department reports U.S. sales of new single-family homes rose by 5.7% to a seasonally adjusted annual pace of 389,000 – the highest level since April 2010 – following a downwardly revised pace of 368,000 in August, previously reported as 373,000

- Front Page Headline, Bloomberg News – **"Ford Motor to Close Belgian Plant.** Ford Motor Co. announces it will close its 48 year-old plant in Genk, Belgium by the end of 2014, eliminating 4,300 jobs, as the automaker reduces production due to losses which may exceed $1 billion (U.S.) in Europe this year. IHS Automotive, a consulting firm, is forecasting that auto industry deliveries in Europe will remain 'below pre-crisis levels until at least 2017."

- Front Page Headline, Bloomberg News – **"FOMC Stays the Course.** In a statement following a two-day meeting in Washington, the Federal Open Market Committee reported: 'While household spending has (recently) advanced a bit more quickly, strains in global financial markets continue to pose significant downside risks to the domestic economy. (Moreover,) employment growth has been slow, so the FOMC will maintain its $40 billion (U.S.) of monthly asset purchases until the labor market improves substantially."

- Front Page Headline, Globe and Mail – **"Euro Zone Debt Reaches 90% of GDP.** Eurostat – the European Union's statistics agency – reports government debt of the 17-member European Monetary Union (EMU) rose to 90% of gross domestic product in the 2nd. quarter ended June 30th. from 88.2% in the 1st. quarter. For the entire 27 countries of the EU, the ratio increased to 84.9% from 83.5%. Among the EU's most financially troubled members, Greece posted the highest ratio at 150.3%; Italy at 126.1%; Portugal at 117.5% and Ireland at 111.5%."

- Front Page Headline, New York Times – **"Federal Prosecutors Sue Bank of America.** In a civil complaint filed by the U.S. Department of Justice – which seeks to collect $1 billion (U.S.) from the B of A – New York prosecutors allege: 'fraudulent conduct that was spectacularly brazen in scope. The Bank of America inherited the 'hustle' home loan program with its purchase of Countrywide Financial in 2008, operating it through 2009. The intent was to issue mortgages at a rapid pace without proper due diligence of quality or credit rating. B of A then sold the deficient loans to Fannie Mae and Freddie Mac – the government controlled house mortgage giants – which suffered heavy losses and a glut of foreclosed properties." **The inglorious legacy of former Bank of America CEO Ken Lewis resurfaces.**

Preet Bharara, the United States Attorney in Manhattan Source: The New York Times

- In a new examination of the State of Illinois' finances, the State Budget Crisis Task Force – co-chaired by former Federal Reserve Board Chairman Paul Volcker and former New York Lieutenant Governor Richard Ravitch – concludes: "For years, Illinois has issued billions of dollars in public debt to cover off budget holes, pay overdue bills and deposited billions into mismanaged pension funds. For residents of Illinois, this has resulted in decrepit commuter trains and buses, thousands of unsound bridges, 200 hazardous dams and one of the most inequitable school systems in America. Illinois has the lowest credit rating of the 50 states and has amassed America's second biggest public debt per capita at $9,624 (U.S.), including state and local borrowing. However, Illinois has not been able to use much of the borrowed money to maintain its roads, bridges and schools in good working order because of years of shoddy fiscal practices and economic weakness ... It would be better for Illinois to start down a long-run path to a sustainable budget, than to live beyond its means for several more years and then face a sudden, painful reckoning. The Task Force recommends a thorough overhaul of Illinois budgeting practices, to make it more difficult to kite money from year to year and issues a warning that tax increases might be in store."

- Markit Economics reports its purchasing managers' index (PMI) for German manufacturing declined to a reading of 48.1 in October from a level of 49.2 in September, citing: "Signs of a slowdown at automobile producers ... contributing to weaker orders for suppliers of intermediate goods to the sector. Simultaneously, relatively subdued investment spending in Asia was reported to have weighed heavily on Germany's capital goods exports." The German PMI has now been below the 50 mark since February.

- Front Page Headline, Daily Telegraph U.K. – **"Greece Plans Further Cuts to Wages and Pensions.** In a draft agreement viewed by Reuters, Greece will cut 6.3 billion euros ($8.2 billion U.S.) in public sector wages and pensions, with pension incomes above 1,000 euros ($1,300 U.S.) a month set to be cut. Furthermore, the public sector will be hit with at least 2,000 civil servants placed on a one-year notice of dismissal with reduced wages until the end of 2012. At least an additional 6,250 public employees would enter the same program every three months during 2013, commencing March 1st. It has also been proposed that severance payments be reduced and capped. However, Greece will be given a two-year extension until 2015, to meet a budget deficit target of 4.5% of gross domestic product, exclusive of debt servicing charges."

Thursday, October 25th

- The Labor Department reports U.S. initial claims for state unemployment benefits declined by 23,000 to 369,000 in the week ended October 20th. while continuing claims fell by 2,000 to 3.25 million in the week ended October 13th. Those people who have exhausted their traditional benefits but are now receiving emergency or extended benefits under state or federal programs declined by about 46,700 to 2.09 million in the week ended October 6th.

- Irvine, Cal.-based Realty Trac Inc. reports the New York Metropolitan area experienced a 69% rise in property default, auction and repossession filings in the 3rd. quarter, citing a nine fold increase in Queens County, N.Y. and more than a tripling in Sussex County, New Jersey. The shadow foreclosure inventory is growing in New York, New Jersey and Connecticut, counter to the national trend, because of state laws which slow the process for seizing homes.

- The Commerce Department reports U.S. orders for non- defense capital goods, excluding aircraft, were basically unchanged in September, following a gain of 0.2% in August. Nigel Gault, an economist at IHS Global Insight in Lexington, Mass. commented: "Businesses are not prepared to commit to big-ticket investments (such as computers and communications equipment) at present. The economic uncertainty and global slowdown are clear negatives for capital spending. The 3rd. quarter was soft and we can't see the 4th. quarter being much better."

- Front Page Headline, Financial Times – **"California's Voters Face Stark Tax Choice.** California Governor Jerry Brown has warned that the state will have to close schools for up to an extra three weeks, if voters don't support Proposition 30 on the ballot in November's U.S. election. If approved, 'Prop 30' will enable a 3% temporary tax levy on the wealthiest 1% of citizens in the state. It will have a duration of seven years with staggered increases affecting those earning more than $250,000 (U.S.), $500,000 (U.S.) and $1 million (U.S.) per annum. Governor Brown observed: 'The super-rich need to consider the consequences of the measure failing. It takes a refined theory to say to billionaires that it's easier to take three weeks of school away from kids in Los Angeles, than it is to take 3% away from people who make hundreds of millions of dollars a year."

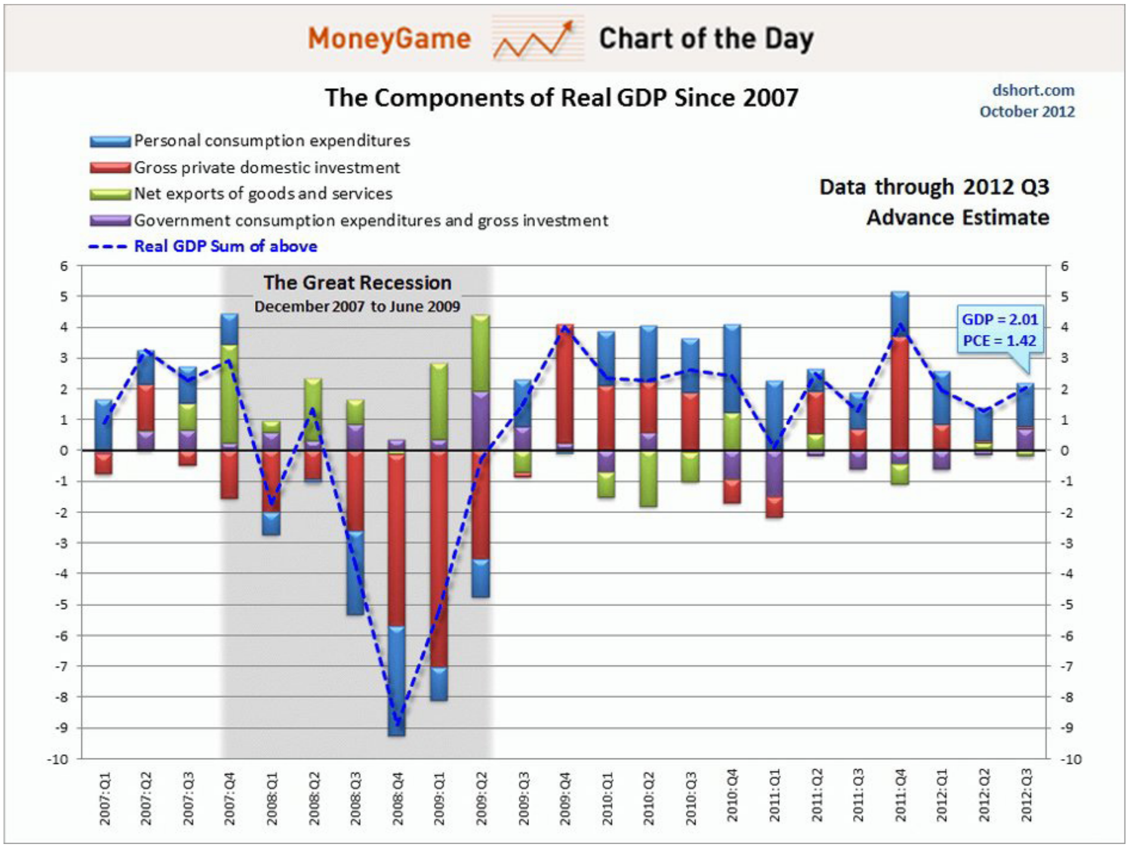
Friday, October 26th

- Front Page Headline, Bloomberg News – **"UBS AG Planning 10,000 Job Layoffs.** UBS AG (formerly Union Bank of Switzerland) is reportedly preparing to announce up to 10,000 job cuts companywide – mostly in the investment banking sector – as high fixed costs and weak demand have made it increasingly difficult to improve competitiveness and profitability."

- Thomson Reuters/University of Michigan report their U.S. consumer sentiment index rose to a final reading of 82.6 in October, following a level of 78.3 in September, citing lower gasoline prices and a drop in the 'official' unemployment rate.

- The National Statistics Institute reports Spain's unemployment rate exceeded 25% in the 3rd. quarter – the highest level of any country in the euro zone – as the EU's 4th. largest economy continues to implement deep spending cuts. Deputy Finance Minister Fernando Latorre commented: "The country is still in a period of painful (economic) adjustment."

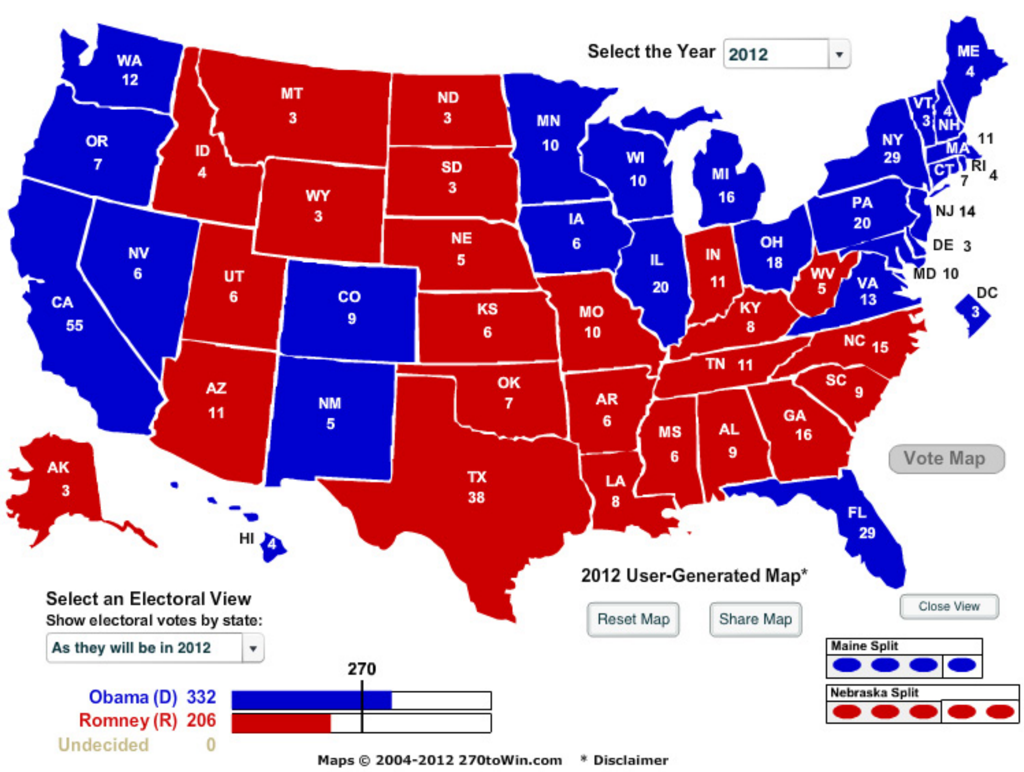
- The Commerce Department reports U.S. gross domestic product (GDP) increased by 2% in the 3rd. quarter, following a 1.3% gain in the 2nd. quarter, citing a higher level of consumer spending, defense outlays and homebuilding activity.



- Front Page Headline, Daily Telegraph U.K. – **"EU Taxpayer Losses Loom in Greece.** A draft version of the EU Troika report obtained by Der Spiegel (The Mirror) magazine reveals European Monetary Union (EMU) governments and the European Financial Stability Facility (EFSF) must accept their share of losses in order to reduce Greece's public debt to 120% of gross domestic product (GDP) by 2020. Greece must implement a further 150 reforms, some involving a drastic loss of sovereignty. The EU troika will have the power to raise taxes automatically. There must be new Greek laws to facilitate the firing of workers and adjust the minimum wage. In exchange, Greece would be given two extra years to 2015 to meet budget targets, costing up to 38 billion euros ... Hans- Werner Sinn, President of Germany's IFO Institute commented: 'It is becoming cruel to keep Greece in the EMU. The austerity (measures) required to restore wage and price competitiveness will break the Greek society first. We are sacrificing a generation of young people who cannot find work, all in the name of the euro. It is irresponsible. A Greek exit from the euro would offer hope at last. Europe should craft a controlled return to the drachma with assistance to bolster the Greek banking system and provide trade credits. There is no need for catastrophe (economic) scenarios.'

Greek protestors taunt riot police during a recent 24-hour nationwide strike in Athens. Source: AP

- Front Page Headline: **Reuters Poll for U.S. Electoral College Results on November 6th.**



CLOSING LEVELS FOR FRIDAY, OCTOBER 26TH		WEEKLY CHANGE
Dow Jones Industrial Average	13,107.21	– 236.30 points
Spot Gold Bullion (December)	$1,711.90 (U.S.)	– $12.10 per oz.
S&P / TSX Composite	12,300.30	– 115.68 points
10 - Year U.S. Treasury Yield	1.75%	– 1 basis point
Canadian Dollar	100.20 cents (U.S.)	– 0.48 cent
U.S. Dollar Index Future (Spot Price)	80.093 cents	+ 0.467 cent
WTI Crude Oil (November)	$86.28 (U.S.)	– $4.16 per barrel

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