

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS



Monday, October 29th

The Commerce Department reports U.S. consumer spending rose by 0.8% in September – following a gain of 0.5% in August – while personal income increased by 0.4%, the most since last March

Monday, October 29th New York/
NASDAQ Stock Exchanges Closed for
Hurricane Sandy

- At a Toronto press conference, Canadian Finance Minister Jim Flaherty announces the government is lowering its forecast for Canada's gross domestic product (GDP) growth to 2% in 2013 – from its previous estimate of 2.4% – citing: 'Canada has recently been affected by volatile and lower commodity prices, which are reducing government revenue growth. This will have an impact on the fiscal outlook.'
- Front Page Headline, Wall Street Journal – "**Catalonians Push for Independence.** Catalonia, the vibrant northeast region of Spain, has long been known as the 'factory of Spain' for generating wealth which helped to sustain the entire nation. Having endured years of recession, now Catalonia – which includes the major city of Barcelona – has become the battleground, which threatens to evolve into an economic civil war. Amid protests of varying degrees, hundreds of thousands of Catalonians are embracing a stark proposition: Only by breaking ties with Spain and becoming an independent country can Catalonia free itself from economic malaise. Catalonians will vote in a regional parliamentary election on November 25th. and indications are that pro-independence parties are leading in the polls.



Source: Wall Street Journal

Tuesday, October 30th

U.S. Financial Markets Remain Closed

- Front Page Headline, Bloomberg News – **Hurricane Sandy Threatens \$20 Billion (U.S.) in Economic Damage.** In its wake, the biggest Atlantic storm on record leaves 61 people dead, 8.2 million people without power and billions of dollars in property damage along the northeastern U.S. seaboard. Major flooding and 90 mph. winds wreaked havoc with mass transit systems, tunnels, airports, highways and bridges across the states of Delaware, Maryland, New Jersey, New York, Connecticut, Rhode Island and eastern Pennsylvania.”



Flooding in the lower Manhattan area of New York City.

Source: Bloomberg News

- The Federal Labour Agency in Nuremberg reports the number of unemployed Germans increased by a seasonally adjusted 20,000 in October to 2.94 million, while the unemployment rate remained steady at 6.9%. Christian Schulz, an economist at Berenberg Bank in London commented: “Today’s unemployment report is another sign of economic weakness even in core euro zone countries. It marginally increases the likelihood of further monetary stimulus.”
- The S&P/Case-Shiller index of property values in 20 U.S. cities rose by 2% in August on a year-over-year basis, the biggest annual gain since July 2010
- Front Page Headline, Wall Street Journal – **“Greek PM Warns of Chaos if Austerity Measures Blocked.** In a stark message issued to his government’s two junior coalition partners, Greek Prime Minister Antonis Samaras warned: “Now that talks on spending cuts and tax increases have ended, the problem going forward is not any particular austerity measure. The problem is the exact opposite: What could happen if the austerity agreement does not pass (in parliament) and the country is led into chaos. These risks must be avoided. This depends upon the responsibility of all the parties and every lawmaker individually.”
- Front Page Headline, Globe and Mail – **“Five Reasons Why Canada’s Household Debt Panic Is Overblown: Rosenberg.** Gluskin Sheff Chief Economist David Rosenberg takes a close look at the Canadian debt/income ratio and concludes it isn’t all that bad.
 1. Because Canadians pay for their health care through their taxes, their disposable income is distorted relative to the U.S. In terms of personal income, the debt/income ratio is actually closer to 118%, rather than the scary 165%.
 2. Canadian household debt relative to assets (19%) and net worth (24%) is below prior peaks of 20% and 25%, respectively. Canada would need to experience a 20% drop in the housing market to get the net worth and income ratios down to the U.S. levels.

3. Canadians have a higher percentage of equity in their homes – 69% of the value compared with 43% in the U.S. This equity difference is a prime reason why the Canadian household net worth/income ratio (at over 500%) is some 35 percentage points above U.S. levels.
4. Canadians are better able to service their debts. Canadian wage growth at 4% a year is about double what it is in the U.S. – a differential which pretty well matches the average interest rate they are paying. Meanwhile, debt growth has moderated to its slowest pace in a decade – indicating that balance sheets are improving without the painful deleveraging process which has unfolded south of the border. Assuredly, if the Bank of Canada felt compelled to raise administered interest rates, that would be a different matter, however, that prospect is a long way off.
5. The debt-servicing ratio in Canadian households currently is just over 7% – a level it has exceeded 85% of the time in the past. So, even though the prevailing level of Canadian interest rates is 75 basis points higher than in the U.S., it is not hampering Canadians' ability to handle debt.



Gluskin Sheff's David Rosenberg

Source: Postmedia News

- Front Page Headline, Globe and Mail – “**PetroChina Unit Partners with TransCanada in \$3 Billion (CAD) Pipeline Project.** Phoenix Energy Holdings, a Canadian subsidiary of PetroChina Co. is partnering with TransCanada Corp. to construct a 900,000 barrel-a-day project – named the Grand Rapids Pipeline System – 500 kilometres from northwest of Fort McMurray to Fort Saskatchewan, near Edmonton. Although a route for the pipeline has yet to be selected, expectations are that it will carry crude oil from the MacKay River and Dover projects which PetroChina has largely secured from Athabasca Oil Corp. The 50-50 partnership gives PetroChina the opportunity to secure a pipeline to an area of the oil sands where there is little current production, while TransCanada operates the project.”

Wednesday, October 31st

- Eurostat, the European Union's statistics office, reports the unemployment rate in the 17-nation region rose to a record 11.6% in September from 11.5% in August – with youth unemployment reaching 23.3% – citing continued erosion in business and investor confidence. Christoph Weil, an economist at Commerzbank AG in Frankfurt, noted: “We've become more pessimistic ... the situation in the labour market will continue to worsen, with the unemployment rate increasing to 12%.”

- The U.S. manufacturing index of the Institute for Supply Management-Chicago Inc. contracted for the second consecutive month with a reading of 49.9 in October, following a level of 49.7 in September. Scott Brown, an economist at Raymond James and Associates in St. Petersburg, Florida, commented: "The manufacturing sector is struggling due to global (economic) weakness which is hurting U.S. exports. In addition, there is the uncertainty with the approaching 'fiscal cliff' which may keep people cautious."
- Front Page Headline, Globe and Mail – **"U.S. Poised to Reach Debt Limit by Year-End.** The Department of the Treasury announces the U.S. federal government is currently \$235 billion (U.S.) below its statutory debt ceiling of \$16.4 trillion (U.S.), enabling payment of its bills and interest on its debt until the end of December. If Congress fails to raise the debt ceiling, the U.S. Treasury will likely exhaust all other options by late February 2013. Meanwhile, the Obama administration and the Congress must deal with the massive tax increases and spending cuts due to take effect at the year-end – the so-termed fiscal cliff."

- Front Page Headline, Daily Telegraph U.K. – **"Greek Debt Spiral Increases Pressure on German-Bloc Creditors.** In an updated budget statement, Greek Finance Minister Yannis Stournaras estimates Greece's debt to gross domestic product (GDP) ratio will increase to 189% in 2013, a full 10% higher than the previous estimate of just weeks ago. The Greek economy is caught in a vicious cycle of depression and will contract by a further 4.5% next year, possibly raising the prospect of debt forgiveness by the German-bloc creditor countries. Simon Derrick, an analyst at Bank of New York Mellon commented: 'Unless European Union leaders can create a sustainable solution to cut Greece's debt burden, everything is going to fall apart in Greece.'" **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.**

Thursday, November 1st

- ADP Employer Services reports U.S. companies added 158,000 private sector jobs in October, while adopting a new methodology of employment measurement. Mark Zandi, chief economist at Moody's Analytics, commented: "Businesses are consistently adding to their payrolls. October's job gains were in line with the average monthly gains of the past two years with sturdy – albeit less than stellar – growth across most industries and company sizes. Businesses have become more cautious in recent months, however that has yet to impact their hiring and firing decisions."
- The Labor Department reports U.S. initial claims for state unemployment benefits declined by 9,000 in the week ended October 27th. while continuing claims increased by 4,000 to a seasonally adjusted 3.26 million in the week ended October 20th.
- The National Bureau of Statistics and China Federation of Logistics and Purchasing report the country's purchasing managers' index rose to a reading of 50.2 in October from a level of 49.8 in September, citing an increase in manufacturing output and a greater number of new orders. Separately, an index of China's manufacturing activity from HSBC Holdings Plc and Markit Economics rose to a reading of 49.5 in October, up from 47.9 in September and a preliminary reading of 49.1 published last week. Qu Hongbin, an economist at HSBC in Hong Kong commented: "The index implies that China's industrial activity continues to bottom out. We expect a continuation of (monetary) policy easing to further boost domestic demand and counterbalance the external weakness."



Greek trade unions have called a general strike to protest further austerity measures.

Source: Associated Press Files

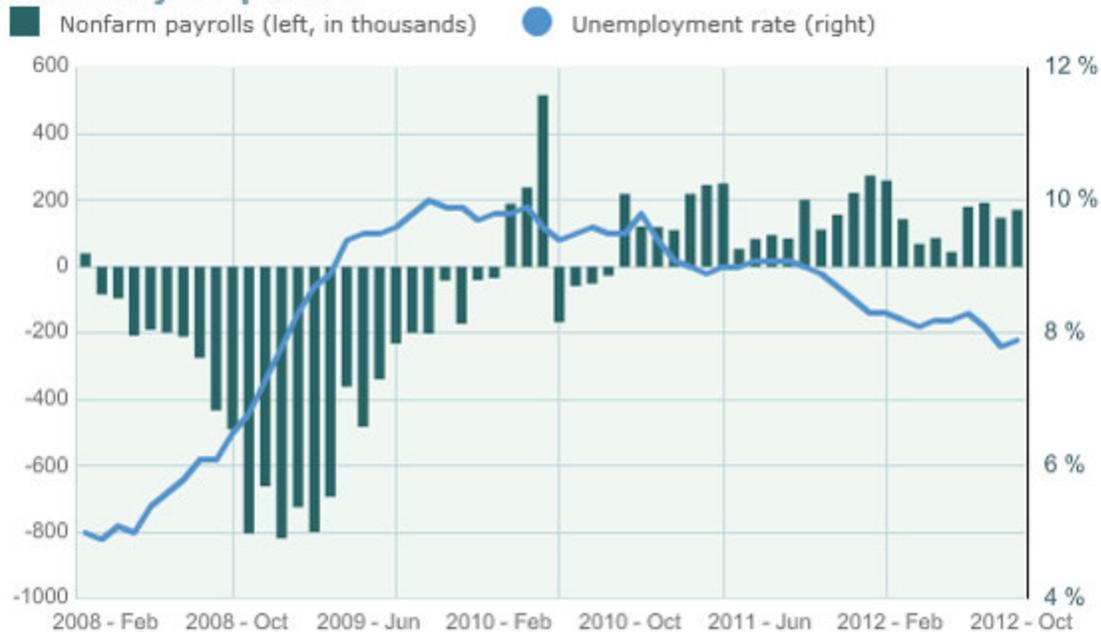
- Statistics Canada reports the nation's gross domestic product (GDP) fell by 0.1% in August, citing lower output in the manufacturing, mining and energy sectors. Douglas Porter, an economist with BMO Nesbitt Burns in Toronto commented: "Fully 10 of the 18 Canadian industrial sectors registered output declines in August. While some temporary factors weighed on activity, the main message is that the Canadian economy is struggling to produce any growth whatsoever."
- The Conference Board reports its index of U.S. consumer confidence rose to a reading of 72.2 in October – the highest reading since February 2008 – from a downwardly revised level of 68.4 in September, previously reported as 70.3.
- The Institute for Supply Management (ISM) reports its index of U.S. factory activity rose to a reading of 51.7 in October, following a level of 51.5 in September.

- The CIPS/Markit purchasing managers' index for the U.K. manufacturing sector declined to a reading of 47.5 in October from a downwardly revised level of 48.1 in September, sliding further below the 50 mark which separates GDP growth from contraction. Markit economist Rob Dobson commented: "While the road to an export-led (economic) recovery remains blocked by the ongoing difficulties in the euro zone, it is disconcerting to hear further reports of the global slowdown hurting (international) trade with other regions such as Asia."
- Front Page Headline, Daily Telegraph U.K. – **"Greek Cuts to Pensions and Salaries Ruled Unconstitutional.** Greece's Court of Auditors has unanimously ruled that the reduction in pension benefits – the fifth in the past few years – as well as the elimination of annual bonuses for state employees, is against the provisions of the Greek constitution. According to the Associated Foreign Press, the Greek government is planning 9.4 billion euros of cuts which will mainly affect state wages, pensions and benefits which have already been drastically reduced over the past two years. The cuts are part of an austerity program totaling 13.5 billion euros which it hopes will be enough to release 31.2 billion euros in rescue funds. Greek Prime Minister Antonis Samaras has stated the coffers in Athens will be exhausted by November 16th. – when 5 billion euros of treasury bills mature – unless the government receives the funds from its latest bailout package."

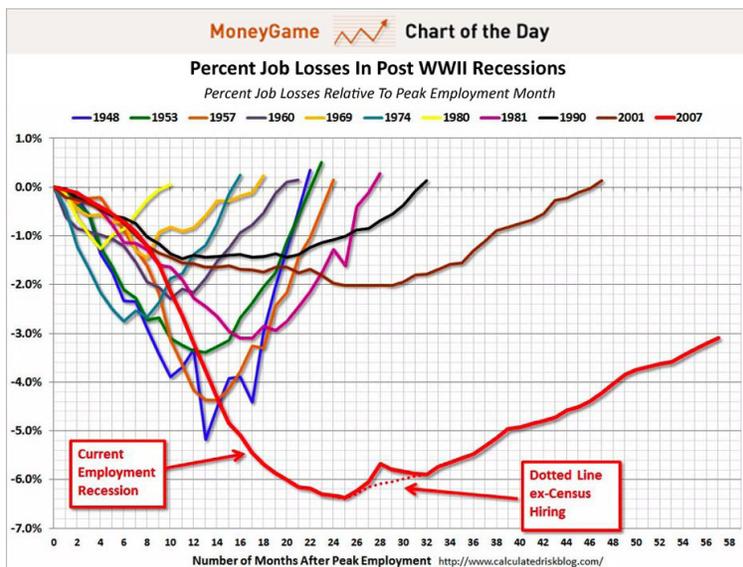
Friday, November 2nd

- The Labor Department reports U.S. non-farm payrolls increased by 171,000 in October while the 'official' unemployment rate rose slightly to 7.9% from 7.8%. The professional services sector added 51,000 jobs; health care added 31,000; retail gained 36,000 and leisure and hospital companies hired 28,000. In addition, the manufacturing industry gained 13,000 jobs, after shedding workers in September and August.

October jobs picture



Source : Haver Analytics/Labor Department



- Front Page Headline, Financial Post – **“Canada’s Labour Market Still Being Bolstered by Government Hirings.** While Canada’s private sector hiring has been weakening since May, the public sector added another 37,000 jobs in October, bringing the total amount of government jobs created to 76,000 in the past five months. Douglas Porter, an economist and managing director at BMO Capital Markets commented: ‘In some ways, this is almost the exact opposite of what was expected this year. With the public sector in retrenchment mode at most levels of government, the expectation was that the private sector would grasp the baton and lead the way in job growth, but this hasn’t been the case.’ Four of the last six Labour Force Surveys have recorded declines in private sector jobs, culminating in the loss of more than 20,000 private sector jobs in October alone. Mr. Porter elaborated: ‘One explanation might be that the bark of austerity is tougher than the actual bite. We’ve seen all kinds of headlines regarding austerity, both at the federal and provincial levels. However, in terms of actual public sector payrolls, it obviously hasn’t actually made an impact.’ Economists expect Canada’s employment data will likely weaken in the coming months as hiring in the public sector evaporates. The concern is that weakness in private sector employment will continue, weighing on Canada’s economy into 2013. Matthieu Arseneau, an economist with the National Bank of Canada, projected: ‘We have to be worried about what’s happening in the Canadian private sector. The corporate earnings season hasn’t been good, so it’s clear there will be concern when it comes to Canada’s labour market over the next few months.’”

Canada’s Provincial Unemployment Rates in Percentage Terms September 2012	
Newfoundland	11.9
PEI	11.7
Nova Scotia	9.2
New Brunswick	11.6
Quebec	7.7
Ontario	8.3
Manitoba	5.6
Saskatchewan	4.7
Alberta	4.5
B. C.	6.7

- Statistics Canada reports the nation's employers added 1,800 jobs in October as the unemployment rate remained unchanged at 7.4%. The agriculture, utilities and natural resource sectors of the economy all posted declines. Education, health care, social assistance; as well as public administration added to payrolls. Emanuella Enenajor, an economist at CIBC World Markets noted: "Most of the hiring was in the public sector which could come under pressure from government belt-tightening in the months ahead."
- The Commerce Department reports U.S. factory orders rose by 4.8% in September, the biggest gain since March 2011, citing a surge in demand for commercial aircraft. Demand for core capital goods edged slightly higher by 0.2% in September, following a 0.3% increase in August.

CLOSING LEVELS FOR FRIDAY, November 2nd		WEEKLY CHANGE
Dow Jones Industrial Average	13,093.16	- 14.05 points
Spot Gold Bullion (December)	\$1,675.20 (U.S.)	- \$36.70 per oz.
S&P / TSX Composite	12,380.41	+ 80.11 points
10 - Year U.S. Treasury Yield	1.72%	- 3 basis points
Canadian Dollar	100.41 cents (U.S.)	+ 0.21 cent
U.S. Dollar Index Future (Spot Price)	80.558 cents	+ 0.465 cent
WTI Crude Oil (November)	\$84.86 (U.S.)	- \$1.42 per barrel

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