

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE  
**THAT WAS THE WEEK THAT WAS**



Monday, December 23rd

The Commerce Department reports U.S. consumer spending rose by 0.5% in November, following a gain of 0.4% in October, as retailer discounts lured early Christmas holiday shoppers. Michael Moran, chief economist at Daiwa Capital Markets America in New

MONDAY, DECEMBER 23RD

York, commented: "People's moods are improving and we are beginning to see consumers become a little more active. We may have an opportunity to witness one of the best quarters for (consumer) spending so far in this (economic) expansion."

- Meanwhile, the Thomson Reuters/University of Michigan group report their consumer sentiment index rose to a final reading of 82.5 in December – matching the preliminary reading issued earlier this month – and following a level of 75.1 in November.
- Statistics Canada reports the nation's gross domestic product (GDP) grew by 0.3% in October – the fourth consecutive month of economic growth – and by 2.7% on a year-over-year basis. In a note to clients, Sal Guatieri – an economist at BMO Capital Markets – observed: "Canada's GDP is showing sustained strength for the first time since the early days of the (economic) recovery. Importantly, this would mark the first time since early 2011 that the (domestic) GDP has posted consecutive quarterly increases above 2%, i.e. above potential."

TUESDAY, DECEMBER 24TH

- The Commerce Department reports U.S. durable goods (those products expected to last for at least three years) orders rose by 3.5% in November, citing higher demand for aircraft and transportation equipment. In another key measure, orders for core capital goods – a proxy for business investment – rose by 4.5% in November, the most since January. In a research note to

clients, Peter Buchanan, an economist at CIBC World Markets, commented: "Businesses may be starting to spend more freely. Combined with the signs of consumer resilience from yesterday's spending numbers, that could bode well for the U.S. economy's performance in 2014."

- Separately, the Commerce Department reports U.S. new home sales declined by 2.1% in November to an annualized pace of 464,000 units, following a revised rate of 474,000 in October. Gennadiy Goldberg, an economist at TD Securities in New York, observed: "While we did witness an increase in mortgage rates, house prices are still about 20% below their peak and the labor market is improving. There is a natural (pent-up) demand for more housing."

WEDNESDAY, DECEMBER 25TH

Christmas Holiday in Canada, Great Britain & America

- Front Page Headline, Washington Post – "Detroit Reaches New Agreement with Banks. In an initiative to end interest rate swap contracts with UBS and Bank of America, the City of Detroit has reached a new settlement with them, reducing the termination amount to about \$165 million (U.S.) from \$230 million (U.S.). According to a court transcript, the settlement was presented to a mediator – U.S. District Judge Gerald Rosen – in federal court in Detroit yesterday. Since the agreement still requires bankruptcy court approval, the next hearing in the case is scheduled

for January 3rd. In a statement to the press, Kevyn Orr, Detroit's emergency financial manager remarked: 'This is an important development for Detroit and its residents because it means we can begin moving forward by implementing needed investments in public safety and services.'

- Front Page Headline, Wall Street Journal – “U.S. Mortgage Applications Decline to 13-Year Low. The Washington-based Mortgage Bankers Association (MBA) reported yesterday that the average number of U.S. mortgage applications fell by 6.3% to a 13-year low last week on a seasonally adjusted basis. Mike Fratantoni, MBA's vice president of research and economics, declared: 'Following the Federal Reserve's taper announcement, mortgage application volume declined again last week with (mortgage) rates increasing and refinance application volume falling to its lowest level since November 2008.’”
- Front Page Headline, Daily Telegraph U.K. – “Turkish Stock Prices Decline as Cabinet Ministers Resign. Stocks in Istanbul's XU 100 index fell by 3% after Economy Minister Zafer Caglayan and Interior Minister Muammer Guler joined Environment Minister Erdogan Bayraktar in resigning from their office amid a corruption investigation involving state-owned Halkbank – shaking confidence in the administration of Turkish Prime Minister Recep Tayyip Erdogan.”

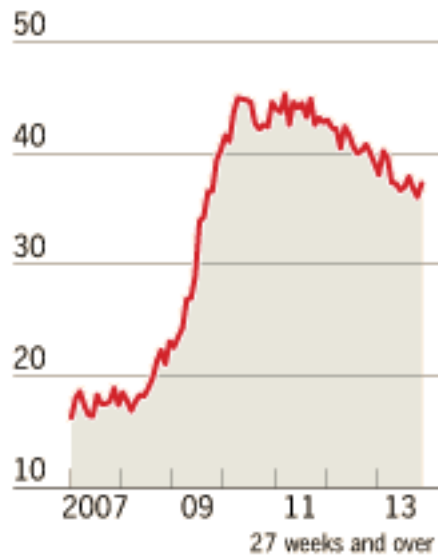


Turkish Prime Minister Erdogan  
Source: AFP / Getty Images

**THURSDAY, DECEMBER 26TH**  
Boxing Day Holiday in Canada and the United Kingdom

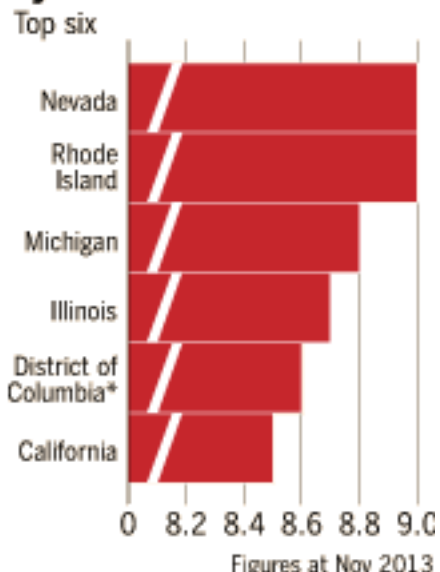
- The Labor Department reports U.S. initial claims for state unemployment benefits declined by 42,000 to a seasonally adjusted 338,000 in the week ended December 21st. while continuing claims increased by 46,000 to 2.923 million in the week ended December 14th. Those Americans who have exhausted their traditional benefits and are now receiving emergency or extended benefits from federal programs increased by about 40,700 to 1.33 million in the week ended December 7th. A Labor Department analyst commented: “While no state's claim figures have been estimated, jobless claims remain within a period of volatility related to the Christmas holidays. The volatility is caused

**US long-term unemployed**  
As a % of total unemployed



Source: Thomson Reuters Datastream

**US unemployment rates by state**



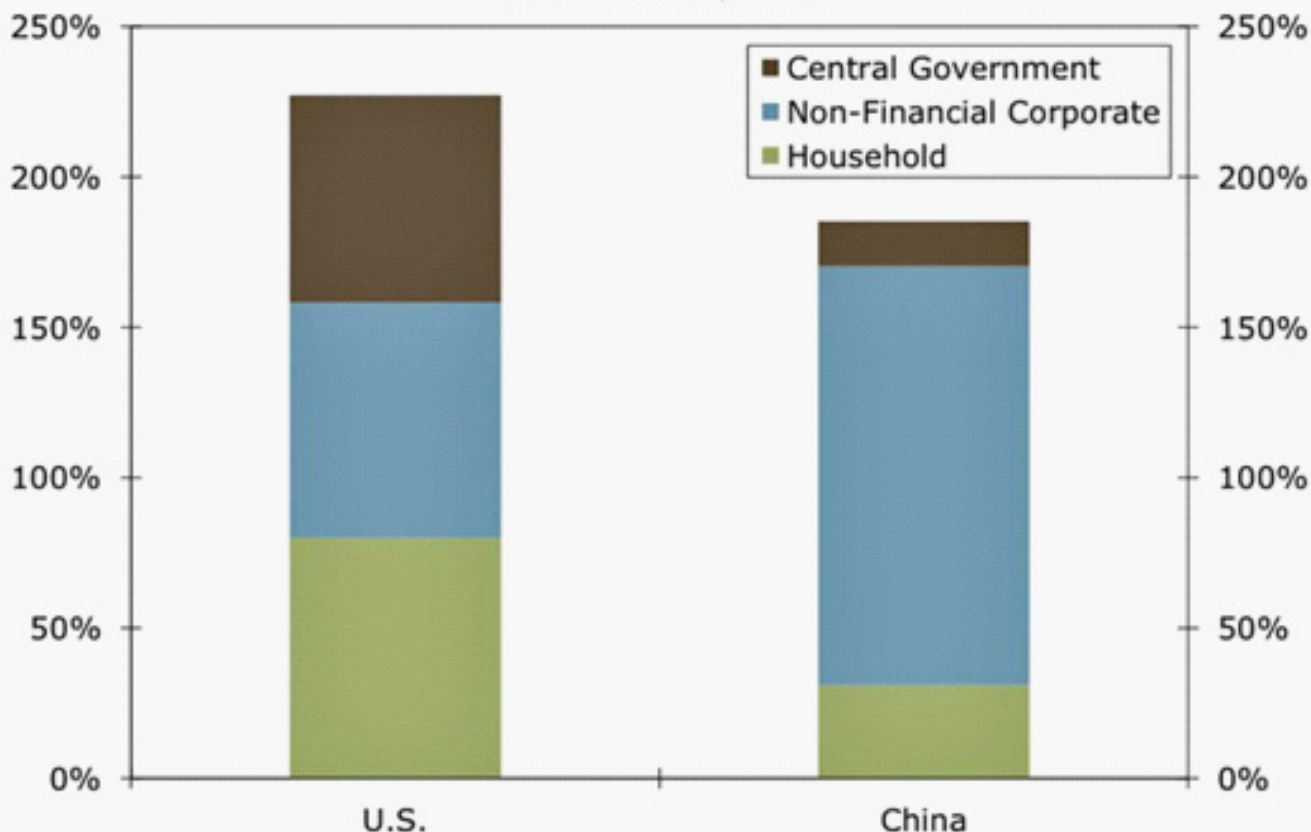
\* Federal district

by the difficulty inherent in adjusting weekly data for seasonal factors of retailers and schools adjusting the sizes of their staffs for the winter season.”

- In a new report, Wells Fargo Securities compares China’s debt levels to those of the United States. Does China have a debt problem? The answer would appear to be ‘no’ when analyzing the Chinese household and central government (i.e. Beijing) sectors where the debt-to-GDP ratios at present are only 30% and 15%, respectively. Comparable ratios in the United States are 80% and 70%, respectively. However, the debt-to-GDP ratio of the Chinese business sector is 140%, whereas its American counterpart stands at 80%. Although there are few visible signs of financial stress in the Chinese business sector at present, further increases in leverage could eventually spell trouble. Wells Fargo’s Jay Bryson warned: “Our caution regarding the Chinese debt situation would become more elevated in the future if we see rapid credit growth in conjunction with slow economic growth.” See chart below.

- Front Page Headline, Financial Post – “U.S. Corporate Bond Rating Downgrades Increase as Leverage Escalates. The credit quality of U.S. companies is reflecting signs of weakening, as issuers from Verizon Communications Inc. to Apple Inc. borrow unprecedented amounts of money, not only for corporate expansion purposes, but also, to reward shareholders. A total of 223 companies had their bond ratings downgraded by Moody’s Investors Service in the six months ended November, compared with 172 increases; the highest proportion of downgrades since April. Corporate issuers took advantage of record low bond yields that averaged 3.83% to market an unprecedented \$1.5 trillion (U.S.) of bonds through December 24th., with 15% of the new issues funding shareholder payouts; the most in five years. At Longwave Analytics, we regard a corporate policy of borrowing money to reward shareholders as financially unsound; since it is based upon an unrealistic and historically flawed American economic cycle mindset of perpetual gross domestic product (GDP) growth.”

**Debt Outstanding by Sector**  
Percent of GDP, 2012



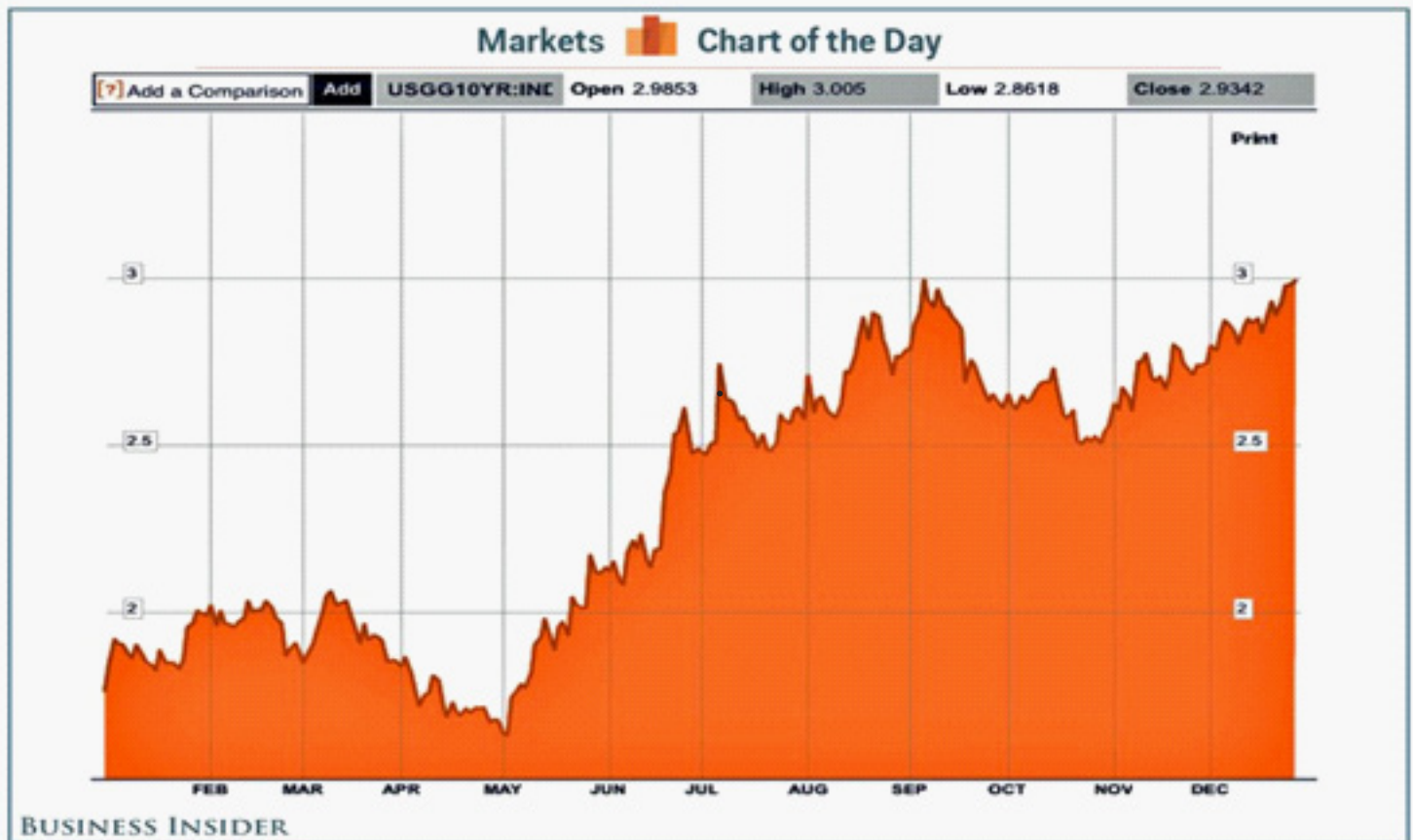
**Source: CEIC, BIS, U.S. Department of Commerce and Wells Fargo Securities, LLC**



Photo Source: APF Getty Images

FRIDAY, DECEMBER 27TH

- Front Page Headline, Financial Times – “U.S. Treasury Yields Highest Since July 2011. The U.S. Treasury 10-year note yield moved up to the 3% threshold today, as investors priced in stronger economic data and a tapering of monthly Treasury and mortgage-backed securities purchases by the U.S. Federal Reserve. The Treasury 10-year note yield is a benchmark for all types of fixed income securities ranging from mortgages to corporate bonds and it has risen by 120 basis points (100 basis points is the equivalent of 1% in yield) to 3% since January.



CLOSING LEVELS FOR FRIDAY, DECEMBER 27TH.		WEEKLY CHANGE
Dow Jones Industrial Average	16,487.41	+ 266.27 points
Spot Gold Bullion	\$1.214.00 (U.S.)	+ \$10.30 per oz.
S&P / TSX Composite	13,587.98	+ 188.38 points
10-Year U.S. Treasury Yield	3.00%	+ 11 basis points
Canadian Dollar	93.42 cents (U.S.)	– 0.49 cent
U.S. Dollar Index Future	80.338	– 0.153 cent
WTI Crude Oil Futures	\$100.32 (U.S.)	+ \$1.00 per barrel

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