THE JEROME LEVY FORECASTING CENTER

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FOR IMMEDIATE RELEASE

DAVID LEVY SAYS EVEN A REDUCED FISCAL CLIFF COULD BE SEVERE BODY BLOW TO ECONOMY

MOUNT KISCO, NY, Dec. 17 – Economist David Levy, writing in the just-published December *Levy Forecast*, said that in 2013 the economy's "upside is limited, but the downside is large. U.S. corporate profits will do well to hold their rough plateau for another year, and they are likely to weaken at least somewhat."

Even if the economy doesn't plunge over the full fiscal cliff, "somewhere between $150 billion and $300 billion of fiscal tightening is likely – not a sledge hammer, but something between a hard body blow and a knockout punch," the *Levy Forecast*, the nation's oldest newsletter devoted to economic analysis, said.

Levy, chairman of the independent Jerome Levy Forecasting Center LLC (www.levyforecast.com), examined a number of factors that will affect the trend in corporate profits next year, noting that each could be greatly affected by the fiscal cliff.

- **Housinginvestment,**which has been rising rapidly in recent months, accounts for only 2.5% of GDP, down from a 60-year average through 2007 of nearly 5%.Levy argued that the 2012 rise in home sales, prices and construction "is not the beginning of a long, great recovery but rather a bounce off the bottom fueled by major new lows in mortgage rates and the relative stability of financial and economic conditionsthis year."

- **Investment in nonresidential structures** also has been rising from a depressed base.Levy said that suchinvestment has stalled recently and could optimistically "hold a plateau" in 2013.

- **Investment in equipment and software**has also stalled. Even though “the worst of the [capital goods orders] decline is probably in orders from abroad…it is hard to paint a positive picture for domestic equipment investment.“

- **Inventory investment** has surged in recent months, but Levy was skeptical that “the economy can sustain the recent pace of inventory building for long.” If the economy weakens substantially, “firms will have to curtail stock building sharply, aggravating the economic downturn.”

The key, Levy wrote, is the government deficit, “which still accounts for virtually all of domestic after-tax profits.” The macroeconomist said in addition to the likely tightening of federal fiscal policy, “state and local governments are living on borrowed time and at some point, perhaps in 2013, must take deficit-cutting actions that will be more painful, both to their constituents and to the U.S. economy.”

About The Jerome Levy Forecasting Center

The Jerome Levy Forecasting Center LLC – the world leader in applying the macroeconomic profits perspective to economic analysis and forecasting – conducts cutting edge economic research and offers consulting services to its clients. The goal of the Levy Forecasting Center is to improve its clients’ business and investment performance by providing them with powerful insights into economic risks and opportunities – insights that are difficult or even impossible to achieve with conventional approaches to macroeconomic analysis. Additional information may be found at www.levyforecast.com.

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