THE JEROME LEVY FORECASTING CENTER

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FOR IMMEDIATE RELEASE

DAVID LEVY WARNS THAT EVEN HALF OF FISCAL CLIFF COULD KNOCK OUT EXPANSION

4Q to Bring Unspectacular Expansion, Muddy Data

MOUNT KISCO, NY, Nov. 20 – Economist David Levy, writing in the just-published November Levy Forecast, said that "the U.S. economy will do well to score another year of modest expansion, and while it is probably not about to turn down on account of dynamics in the domestic private sector, it will turn down if it gets hit by a big enough fiscal sledge hammer at home or is undermined by a global recession caused by policy failures abroad."

Levy, chairman of the independent Jerome Levy Forecasting Center (www.levyforecast.com) cautioned that even if there is only $250 billion of federal deficit tightening at year-end—less than half of the full fiscal cliff—a recession would still likely ensue. Avoiding a recession in such a scenario would "take a lot of other things going right."

As for the fourth quarter of 2012, Levy believes that the data will show "further, unspectacular expansion, a few bright spots, but general disappointment on earnings and sales trends. " Holiday sales are "unlikely to be a great surprise in either direction. In 2012 to date, consumers have remained relatively steady spenders."

Levy advised clients to be prepared for misleading economic data in the fourth quarter that could confuse markets. The fourth quarter already "looks like it may be a statistical nightmare," he said. Among the factors distorting underlying economic trends are ongoing seasonal adjustment problems, Super-storm Sandy damage and disruptions, and the reported disruption of business hiring and investment activity caused by extreme uncertainty over the election and fiscal cliff.

Of the latter effect, the economist states that "the fiscal cliff and other policy issues have undoubtedly dampened enthusiasm for capital investment in recent months, but probably not enough to explain away all the weakness in capital goods demand." Levy argues that capital spending "may be fundamentally weaker than many people think" and could be the "biggest potential negative surprise" for the economy in 2013.

On the positive side, Levy cited the improving foreign trade prowess of the United States.

"The speed with which increased domestic oil production and decreased petroleum-based fuel usage have been reducing petroleum imports this year is striking," he said, adding that a second positive trade development has been the surge in the value of U.S. agricultural exports. Add in the reversal of the trend in the U.S. manufacturing trade deficit, and "the secular trend of the U.S. trade deficit is a great, positive story," said the economist. "The trade gap has been an enormous negative source of profits for over three decades. America may be only a decade from running consistent merchandise trade surpluses."

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