THE JEROME LEVY FORECASTING CENTER

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FOR IMMEDIATE RELEASE

LEVY SAYS "REFLATION" OF U.S. ECONOMY UNLIKELY IN 2013

More Balance Sheet Repair Still Needed before Sustainable Prosperity Returns

MOUNT KISCO, NY, Feb. 21 – Economist David Levy, writing in the just-published February Levy Forecast, argued against the popular expectation that the U.S. economy is ready to releverage. This expectation has encouraged many people to move out of bonds and into riskier assets like corporate equities and real estate in the past few months.

Many believe that the U.S. economy is finally ready to return to"*briskly expanding debt, demand, production, and asset prices—perhaps finally getting back to the old normal*." But Levy, chairman of the independent Jerome Levy Forecasting Center LLC (www.levyforecast.com), said that such an outcome"*would postpone America's return to sustainable prosperity and set up a new financial and economic disaster."*

Moreover, he doesn't see such a path as likely in 2013. *"Releveraging is not so easy at this point in U.S. economic history. The long-term forces for balance sheet contraction persist,"* he wrote inThe Levy Forecast -- the nation's oldest newsletter devoted to economic analysis.

"The reflation discussion assumes that if reflation succeeds, the economy will be out of the woods, with only normal cyclical risks to contend with. The truth is that sustained prosperity (with normal cyclical swings) will be achieved only after the contained depression has run its course."

He argued that, unlike Japan, the United States "*should not need 22 years of 'contained depression' to reach its own revival, but it needs more than the five that have transpired so far."*

Levy acknowledged that *"debt ratios have come down significantly in some parts of the economy—for example, for the largest corporations and for household's credit card debt."* However, in the aggregate both businesses and households still suffer from a debt position that is high relative to income. "Even *if big firms start borrowing more, the massive debt of other firms remains under pressure to shrink."*

Moreover, Levy said *"the notion that households have deleveraged enough to start rapidly racking up debt is largely based on the financial obligations ratio, which we have explained is seriously skewed by shifting distributions of income and debt."*

Levy warned that premature U.S. releveraging would only lead to a return to huge, unstable balance sheets. Rather, he said, "*It is critically important to keep the depression contained, but in addition capitalism needs to clean up past excesses*."

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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Note: The full Levy Forecast is available to the press in PDF format by contacting Andrew Edson & Associates – Andrew@edsonpr.com or 516 850 3195.