THE JEROME LEVY FORECASTING CENTER

DATE: May 22, 2013

FROM:
Andrew Edson & Associates, Inc.
89 Bounty Lane
Jericho, NY 11753
Andrew Edson, 516 850 3195
Andrew@edsonpr.com
www.edsonpr.com

FOR:
The Jerome Levy Forecasting Center
69 South Moger Avenue – Suite 202
Mount Kisco, NY 10549
Kevin Feltes, 914 666 0641
kevinf@levyforecast.com
www.levyforecast.com

FOR IMMEDIATE RELEASE

LEVY CAUTIONS INVESTORS THAT BULL MARKETS CARRY "ABNORMALLY SEVERE, MACRO-RELATED DOWNSIDE RISKS"

Levy Forecast says rally has potential to continue for awhile, but "will eventually end badly"

MOUNT KISCO, NY, May 22 – Economist David Levy, writing in the just-published May Levy Forecast, suggested that investors view the bull markets in stocks, real estate and other risky assets as having the potential to continue for awhile, but cautioned that they "*also carry abnormally severe, macro-related downside risks."*

The Levy Forecast, the nation's oldest newsletter devoted to economic analysis, reaffirmed the conviction that, "*This rally will eventually end badly with stock prices falling steeply through the next recession, dropping further than in a typical economic contraction."*

Levy, chairman of the independent Jerome Levy Forecasting Center (www.levyforecast.com) has been extremely bullish about America over the next quarter century, but first sees more tough adjustments ahead in the next few years. He wrote that the next recession may not arrive for another year or two, but warned that it is unlikely to be "either mild or normal." The recession, he said, *"will have unprecedented characteristics, will be unusually serious, and may unfold in a sudden, unfamiliar manner."*

Among the reasons why the next recession would not be "normal," Levy noted:

- Still extremely large U.S. private sector balance sheets.

  Levy pointed out that the "aggregate debt ratio of the nonfinancial business sector is higher than at the start of the last recession." He said that high asset valuations will be driven lower when the economy turns down, and profits will also be down sharply.

- The likelihood of deflation.

  He predicts that average hourly earnings would decline during the next recession, as "*the prospect of broader commodity deflation along with a strengthening dollar adds to the domestic deflation case."*

- The Fed has cut rates at least 500 basis points in every previous recession from 1970 on. It will have no capacity to cut nominal rates this time.

- Rising real interest rates.

  With the Fed unable to cut rates further, "falling inflation (probably becoming deflation) will mean rising real rates," Levy opined. As a result, short-term credit will become more expensive and will aggravate financial problems.

- Unusually high unemployment.

  At the start of the last recession, unemployment stood at 4.7%; today, unemployment is 7.5% (which doesn't count the millions who have dropped out of the labor force). Levy said that even if the unemployment rate falls modestly before the next recession, *"it will probably still be elevated and the recession may well push the rate above the postwar record of 10.8%, reached at the end of the 1981-82 recession."*

In addition to these factors, Levy pointed out that huge economic and financial risks around the world, questionable federal government willingness to provide fiscal relief, and the negative impact on confidence that will result will add to the recession's impact. For example, he said, "*Americans are not prepared for a recession that terminates the long-awaited housing recovery and sends prices to new lows."*

While Levy concluded that the depth of the next recession will prove "*severely damaging to most portfolios,"* he reiterated his optimism about the U.S. economy over the next 25 years, once it has shed the balance sheet excesses of the "*contained depression."*

"*Great long-term entry points still lie ahead, and although asset markets could run up for a while longer, the great long-term opportunities will come after the next recession."*

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.

###