



THE JEROME LEVY FORECASTING CENTER

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FOR IMMEDIATE RELEASE

DAVID LEVY SAYS HEIGHTENED YIELDS WILL SOW THE SEEDS OF THEIR OWN DEMISE

Levy Forecast Says Profits Were Soft In Q2, May Soften More in Second Half

MOUNT KISCO, NY, July 15 – Economist David Levy, writing in the just-published July Levy Forecast, said that the apparent fall of profits in the second quarter coupled with a soft second-half profits outlook “*is likely to mean decelerating hiring by autumn.*”

The Levy Forecast, the nation's oldest newsletter devoted to economic analysis, reaffirmed the importance of profits as the economy's key driver, and said it expected, when the numbers are reported, not only soft profits in the second quarter but “*the possibility that the profits drop will turn out to have been sizeable.*”

The chairman of the independent Jerome Levy Forecasting Center (www.levyforecast.com) repeated his view that “*The global economy is more balance-sheet impeded and less stable than during most of postwar history.*” As a consequence, he wrote, “*The notion that global economic affairs will simply drift back toward normalcy is fundamentally flawed.*”

Over the new few quarters, he said, U.S. corporate profits will trend sideways at best and are more likely to erode modestly. “*The domestic economy is not going to maintain speed, let alone accelerate, without rising profits.*”

Persistent high yields would have a deleterious effect on profits by negatively affecting residential construction, personal spending/saving rates and exports, he explained.

- In terms of housing, contract rates for fixed-rate mortgages have increased substantially over the past several months. While rising rates may have pushed some buyers to act quickly, marginal buyers have been priced out of the market, Levy cautioned.
- Higher yields could also encourage a greater rise in the personal saving rate by hindering the stock market rise, which had been boosting consumption (via a significant wealth effect).
- As to U.S. exports, higher yields are “definitely bad news,” said Levy, as a stronger dollar hurts both the prices and volume of U.S. exports. Levy said that the net effect of a yield rise on imports is “fuzzy,” and in any event the effect on imports would do “little to offset the negative impact of the strong dollar on exports.”

Assessing the soft economies in Europe, China and elsewhere, Levy wrote, “*This is not a world well fortified against the stresses of higher U.S. bond yields.*”

Levy’s conclusion: “*These yields are unsustainable and, if they last long enough, will sow the seeds of their own destruction by weakening (and possibly terminating) the domestic and global expansions.*”

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](tel:5168503195).