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FROM:
Andrew Edson & Associates, Inc.
89 Bounty Lane
Jericho, NY 11753

Andrew Edson, [516 850 3195](tel:5168503195)

Andrew@edsonpr.com
www.edsonpr.com

FOR:
The Jerome Levy Forecasting Center
69 South Moger Avenue – Suite 202
Mount Kisco, NY 10549

Robert C. King, [914 666 0641](tel:9146660641)

rking@levyforecast.com
www.levyforecast.com

FOR IMMEDIATE RELEASE

LEVY SAYS Q2 U.S. PROFITS MAY RISE
Economist Warns that Continuing Emerging Market Imbalances Will Generate Global Financial Stress and Recession

MOUNT KISCO, NY, June 28 – Economist David Levy, writing in the just-published June issue of *The Levy Forecast*[®], said that stimulus in China and other factors may have prevented the domestic economy and global economies from decelerating significantly in the current quarter, but that the improvement is likely to be short-lived.

Said Levy, chairman of the independent Jerome Levy Forecasting Center (www.levyforecast.com), “*The long-term imbalances and the intensifying strains they produce continue to promise a messy deflation of the emerging market (EM) bubble that will rock the individual EMs and will jolt the world’s already troubled developed market (DM) economies.*”

Writing in the nation's oldest publication devoted to economic analysis, Levy noted that the global economy and financial fabric have thus far remained stable enough for various economic boosts to cause visible short-term improvements, including, potentially, a bounce in second-quarter U.S. corporate profits:

- Partial and preliminary second-quarter data are consistent with a profits bounce, but this view could change as more data appear.
- Because of the rise in oil prices, the benefits of this profit improvement will be skewed toward the energy sector at the expense of airlines and businesses selling non-energy goods and services to consumers.

- While it is possible that second-quarter profits will be up on a seasonally adjusted basis from the first quarter, they will probably still be down from the second quarter of 2015.
- The drivers of the second-quarter profits bounce are likely to be short-lived. The outlook for profits remains downward in the third quarter and into 2017.

The economist observed that the “*long, drawn-out operatic death scene*” of the bursting EM bubble was reminiscent of the longer-than-expected deflation of the housing bubble in the U.S. in 2006 and 2007.

Levy warned that enormous, global economic and financial imbalances “*cannot be fixed by the world economy muddling through a sluggish corrective era,*” he said.

“*Excess asset valuations, excess debt and excess business capacity in this period cannot be corrected without declining asset prices, shrinking debt, and the writing off of unneeded plant, equipment and intellectual capital,*” he concluded.

Writing to clients following the results of the Brexit referendum (which occurred after the publication of the June issue of *The Levy Forecast*[®]), director of research Srinivas Thiruvadanthai stated,

“*The economic consequences of Brexit may not be huge, but given the fragile state of the global economy, any shock can potentially trigger an avalanche. If a global recession does occur by midsummer, it may be widely blamed on Brexit, but the underlying fragility is the real reason why the system cannot withstand shocks.*”

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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