THE JEROME LEVY FORECASTING CENTER

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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 FORECAST SAYS RECENT ECONOMIC MOMENTUM WILL NOT EVOLVE INTO A "NORMAL" RECOVERY

Recovery Not Being Driven By Rebound in Typical Cyclical Forces

NEW YORK, Feb. 23 – Without further increases in the federal deficit, *continued economic expansion is "less and less probable the farther out one looks"* because major balance sheet problems are weighing on the private economy, says economist David Levy in the just-published February Levy Forecast.

"As the afterburner of deficit spending continues to propel the economy, it is easy not to notice that the regular engines are not firing properly," Levy writes in the nation's oldest newsletter devoted to economic analysis.

Levy points out that the activities that typically account for the generation of corporate profits in the economy are extraordinarily weak:

- Fixed investment in equipment and software is rising but *"is still at an extremely low level net of capital consumption."*
- Net levels of both residential and nonresidential investment in structures are also deeply depressed and not recovering.
- The personal saving rate has reached its highest level since the early 1990s.

The chairman of the independent Jerome Levy Forecasting Center (www.levtforecast.com) said that *"there is limited potential for the private profit sources to grow continually and to support the economic expansion, especially in the event of cuts in government deficit spending."*

Why can't the economy's gains in momentum trigger typical recovery dynamics, with more confidence leading to more consumer borrowing and spending and more business investment? Levy argues that oversized private balance sheets will prevent an ongoing expansion of credit, decline in personal saving, or rebound business investment.

"The household debt retrenchment has a long, long way to go; debt is much too high relative to income and must fall considerably over the next several years," Levy noted.

In terms of business investment, Levy argued that "o*nce replacement outlays have caught up, perhaps by the third quarter, capital spending will begin to plateau or even slip."*

He added that the record accumulation of cash by business also isn't a precursor to increased business investment and noted that *"firms generally do not invest just because they have cash."*

"Even if they do feel pressure to pare the excess cash, they may buy back stock or seek acquisitions rather than investing in new plant and equipment."

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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