



THE JEROME LEVY FORECASTING CENTER

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FOR IMMEDIATE RELEASE

**LEVY FORECAST WARNS THAT SHARP DEFICIT CUTS  
WOULD KILL EXPANSION AND BACKFIRE**

**Both Democrat, Republican Deficit Reduction Plans Would Contribute to 2012 Downturn**

NEW YORK, April 26 – Competing political proposals to cut the federal deficit “*would most likely contribute to a downturn next year,*” says economist David Levy in the just-published April Levy Forecast.

Arguing for the notion that “*the government deficit is fully responsible for domestic profits*” and against the prevailing economic wisdom in Washington, Levy warned that “*sharp deficit cuts in any of the next few years would kill the expansion and backfire.*”

Levy wrote in the nation’s oldest newsletter devoted to economic analysis that most observers, who believe that the two-year-old recovery is stable and durable, overlook the factors and trends that suggest the uptrend in corporate profits may soon stall. Among them:

- The wave of pent-up consumer spending “*is growing long in the tooth, suggesting that the personal saving rate will resume its rise, cutting into profits.*”
- High oil and food prices “*are gnawing away at household purchasing power.*”
- Inventory building has rebounded, but “*its probable pace in the second quarter is unsustainable.*”
- Capital spending will likely decelerate in the second half.

- State and local governments continue to aggressively strive to improve their fiscal balances, a negative for profits.
- The trade deficit is widening again.
- The housing market is deflating again.

All-in-all, argues Levy, who chairs the independent Jerome Levy Forecasting Center ([www.levyforecast.com](http://www.levyforecast.com)), “*profit sources excluding the federal government will do well to hold steady at about zero through the year,*” thus increasing pressure on the federal government’s fiscal behavior.

Nonetheless, Levy acknowledges that because of likely solid gains in second quarter profits, employment and GDP, “*the economy will remain a green flag for Washington deficit cutters.*” Meanwhile, he warns the economy will weaken in the second half of 2011.

Despite that likely weakening, Levy said, “*There appears to be a real risk that Washington will either pass recessionary deficit cuts or fail to reach any kind of agreement, throwing the government into disruptive shutdowns, which at worst could themselves become recessionary.*”

Nonetheless, summarized Levy, despite either budget-cutting policy or Congressional impasse, he expected “*the contained depression to remain contained.*”

#### **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](http://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](mailto:Andrew@edsonpr.com) or [516 850 3195](tel:5168503195).**