L. R. Levin Consulting, L.L.C.

Newsletter

November 2008

What Has Changed For 2009?

2009

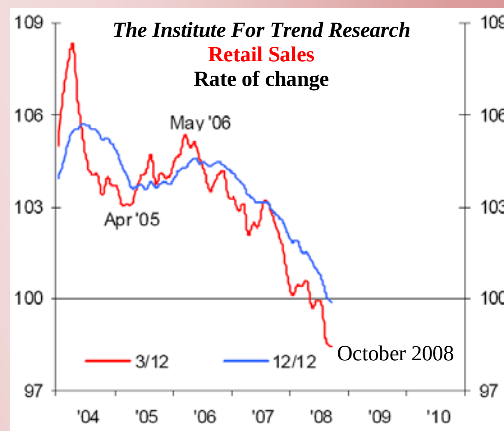
Much has happened since our ***September Newsletter***. The banking system freezing up, credit restriction and a meltdown of our financial institutions suddenly seemed possible. The 15 month continuing bear trend intensified, and we saw the steepest decline in share prices since 1929-32, creating real fear. The FED, Treasury, President and Congress, awash with drama and frenzy, rushed to do something. ***Amid this mix, Americans went to the polls and elected a new president. What has "Changed?"***

To date, the great bailout of 2008 has cost taxpayers more than $1.9 Trillion Dollars! Another immediate $300 to $500 Billion is promised.

Economists confront each new government action outside normal market forces with mixed reviews, recognizing that these actions in turn will have their own consequences. There are no easy solutions. The questions are simple, the solutions complex.

2008-2009 are heading "south" rapidly and whether mid - 2010 will see a turn around, and if so how much, is now in question.

More than ever, to maintain growth and profits, companies need scenario based strategic planning and implementation based on a real understanding of what the coming economic cycle means for them.



The credit freeze and massive bail out appear to have hastened the deterioration of the economy and deepened the down turn. The expectation is that the recession will continue to deepen through 2009 and into at least the first half of 2010.

We suggested 8 key drivers to track the economy in our September Newsletter.

- **Petroleum Prices**
- **Natural Gas Prices**
- **Exports**
- **Retail Sales**
- **Strength of the Dollar**
- **M2 Money Supply**
- **Industrial Production**
- **Raw Material Prices**

Continued on next page

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Many of the 8 key drivers are positive and the dramatic change in consumer spending reflects the emotion of the moment. ***The change itself may turn concern into reality.*** The evaporation of trillions of dollars of value from the securities markets has taken purchasing power from all levels of the economy. Individuals at all levels are feeling poorer than they have for many years.

What is the impact of the credit freeze and market meltdown?

Going into winter, the drop in petroleum and natural gas prices is moderating the downward slide and should help cushion the economic slowdown, helping Retail Sales. However, the high drama of the credit freeze and the election emphasizing comparisons to the great depression have created a psychology that choked off retail sales out of all proportion to the actual state of the economy in October. Reduction in commodity costs and moderate current interest rates must be balanced against lack of available credit and sinking global demand for manufactured goods. **ITR still sees a broader-based contraction taking hold in 2009.**

Will the global downturn hurt domestic employment?

With the U.S. economy slowing quickly, unemployment will continue to rise over the next 12 months. Both Europe and Asia rely heavily on U.S. sales to support their economies and we can expect a substantial global downturn. The dollar has shown strength. All of these factors will further reduce export demand depressing our industrial production. Manufactures and retailers who have relied on Asian, India, or other foreign suppliers need to be vigilant and think about alternative suppliers. With China and others beginning to experience dislocation within their economies they are becoming less reliable. If petroleum prices rise again, long distance shipping costs will become a negative factor.

Does this look like the long painful recession of 1980?

This business cycle looks most like the 1980 recession. But a number of factors make it different from any we have experienced before. Deflation may be confined to financial assets, securities, construction, and commodities. With the rapid expansion of the money supply during the bailout, we could experience substantial inflation.

Stagflation is a real possibility. Over the next 12 months, short term and long term inter

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est rates could go either or both directions. The home equity concept that has fueled consumer spending since the tech crash is now gone.

What does this mean for you?

What we have is a confluence of structural discontinuity in our economic system rather than the normal causes of a moderate recession. Structural problems can take substantial time to work through.

The real question is one of length and severity. The "wild card" is how the government behaves going forward. That is the change that will count.

The Wise Old Owl

As our **Newsletter** clearly shows, there is little doubt that we are in the first stages of a serious recession. The narrow question is how long and how deep?

The broader question is the nature of the recession? Will we, as it progresses, experience ***real deflation***? (See our **Newsletter's** comments on industrial, commercial, and home construction.) Will we experience ***real inflation*** as a result of all the bailouts and the rapid expansion of the M2 money supply? Will we experience both ***real deflation*** and ***real inflation*** at different times or simultaneously in different segments of the economy?

There are at least 5 plausible scenarios that could play out over the next 14 months. We could move rapidly from one to another over that same period. ***Scenario planning is key to timely adjustments as the cycle progresses. What is required is long term strategic planning with continuous tactical adjustments as conditions progress.*** Past experience teaches that, if you wait to react to conditions as they occur, your business will experience declining revenues and opportunities.

Quick reaction time can only come from effective preparation. We recommend that you immediately update your ***Focused Scenario Strategic Planning*** and implement an immediate tactical alteration of your activities to be in front of the coming storm. We hope our **Newsletter** helped you understand the need to act today.