L. R. Levin Consulting, L.L.C.
Newsletter
September 2009

Good News, The Recession Is Over!

The August 2009 Purchasing Managers Index soared to 52.9 and the rates-of-change moved higher accordingly. Our strategic partner, the Institute For Trend Research said this "is exciting regarding the prospect of a general economic recovery in 2010." Many economists are saying the recession is over.

The government credits the stimulus and the Fed's pumping money into the economy. However, like many economist the IFTR believes "the fact that the gains started taking shape before this summer tells us that the trend is not purely stimulus driven. Throwing that much money at the economy probably has bolstered the trend dynamics over the last two months."

Looking at retail sales in August, Fed Chair Bernanke proclaimed that "we are in a recovery." What does the term "recovery," or a declaration the recession is over, mean?

Bernanke was talking in a purely technical sense, somewhat akin to releasing a prisoner naked in northern Alaska in the dead of winter and asking how he likes the weather now that he is free. It's all a matter of definition.

Bernanke was pointing to the concept that if GDP rises this month compared to last, we are in recovery. From the stand point of practical business needs, that kind of recovery is not what will determine how your business will do over the next 6 months.

For example, if you sold 100 widgets per month in 2008 and sales have fallen to 1 widget per month in July 2009, sales are off 99% and the GDP has contracted, year over year. The number of employees, etc. you need has dropped materially.

If in August 2009 the number of widgets sold goes up to 2 per month, your sales have gone up 100% and the GDP has begun to grow. The problem is, you are still down 98%, year over year. The 1 widget increase does not restore your business or

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803 Sheridan Road, Glencoe IL 60022 ■ (847) 242-1000 ■ Web: www.LRLevin.com ■ LLevin@LRLevin.com

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employment to where it was before. If you continue to only sell 2 or 3 widgets a month, it won't look like what a business person calls a "recovery."

The big factor the Fed cited was the 2.7% August increase over July 2009 in retail sales (including autos). This is only a 0.1% reduction in the low for the year!

As we pointed out in our July 09 **Newsletter**, two key factors drove the August increase, cash for clunkers and back to school sales. Cash for clunkers has now ended and the summer shopping season, as of mid August, was among the worst in the last 62-years. In other words, it joins the recessions of 1960, 1980, etc.

Reaching bottom only signals a meaningful change for your business, if it means we are beginning a real rise.

Will Unemployment Blunt The Recovery?

We are not currently in a "Great Depression" economic cycle. If we were, we would have 25% unemployment with production closing down across the nation.

Just the same, in 2009, to date we experienced the greatest one year job loss since 1945. While it isn't a "depression," the August unemployment data, however, painted a depressing picture. Why is this important given "the good news that the recession is over?"

The duration and level of unemployment can dramatically affect what "recovery" looks like and means. In August we hit a 26 year high of 9.7% unemployment. This percentage is misleading. It reflects only unemployed still receiving benefits or about 14.9 million people.

If we include the people who have exhausted their benefits (but "wanted and were available for work") and people who wanted full time work, but could ***only*** get part time, the number of unemployed is 26.3 million people and growing. This represents a real unemployment rate of 16.8%. A real unemployment rate at this level takes a very large bit out of consumer purchasing power.

If the recovery does not include putting these people back to full time work, then we may only be reaching a plateau or flat recovery. See our June 09 **Newsletter**. Without generating substantial additional consumer buying power in the short run there will not be a sustained increase in demand for consumer goods and services.

Spending in 2010 may not help. Once you study the habits of mosquitoes, the spending stops. It has not created useful repetitive sales.

It was just such a flat recovery in 1937 that did so much real sustained damage to the U.S. economy. The August unemployment figures, for example, showed that mining employment declined more than 9,000 from the month

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before. Measures, like cap and trade, would not only reduce the prospect for re-employment in coal mining, but substantially cost more jobs.

Given the length of this downturn, what the economy needs now is real stimulus aimed at giving taxpayers added purchasing power to buy the goods produced by existing consumer industries where the infrastructure already exists but the recession caused layoffs.

This really can only be done by tax cuts that channel consumer spending into goods that reflect consumer preferences, not scattered shot government spending. See our March 09 **Newsletter**.

Our Prior Newsletters Suggest 8 Key Drivers To Track The Economy

Petroleum Prices

Petroleum prices have remained stable within a moderate range, although slightly elevated over the past few months. We do not expect they will be a source of added discretionary dollars for the economy during the rest of 2009.

Natural Gas Prices

Like petroleum prices, natural gas prices have stabilized within a range. This is lending support to the view the economy is reaching bottom.

Exports

The global economy has begun to stabilize. Asia and Europe have improved although still declining and this should have a positive effect on U.S. exports in the coming months improving the U.S. manufacturing picture.

Retail Sales

Unemployment will continue to hurt retail sales through 2009. As the economy levels out, retail sales should stabilize. Lower inventories more in line with current demand levels and the use of promotions should benefit manufacturing over the next few months.

Strength of the Dollar

The continuing drop in the value of the dollar may become a real dilemma. As the dollar falls it puts real pressure on the price of oil which can be highly inflationary. It is causing capital needed here to be invested overseas where a higher return can be obtained. It also adds pressure on interest rates. The positive effect on U.S. exports and manufacturing could in the long run be offset by an increase in oil prices caused by the weaker dollar and the added pressure on interest rates. On balance, however the drop in the value of the dollar should help in the short run during the next 6 months.

M2 Money Supply

The M2 money supply has continued to be abnormally elevated, but there are signs that

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liquidity is beginning to reach the economy. The steep drop in fuel prices have kept overall inflation down, although we are seeing inflation creep into other parts of the economy. We do not expect this to become problematic during the remainder of 2009.

Industrial Production

Industrial product continues to fall as

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compared to last year. There are signs of stabilization.

Raw Material Prices

Raw material prices remain stable. The real question is whether changes in the world economy and the continuing decline in the value of the dollar will put upward pressure on raw material prices over the next few months.

Recent Cartoon

THE WISE OLD OWL

With the uncertainty of how economic conditions will develop over the next 12 to 15 months, we continue to think it is important to focus key management on the immediate action steps required to increase revenues and grow profits over the next 12 to 15 months. We are working closely with our clients on implementing 5 Scenario Planning. See the Managing for Success Magazine article on 5 Scenario Planning.

Click Here to read the Managing for Success article on **5 Scenario Planning**.

You can also paste this link in your browser:
http://www.LRLevin.com/Publications/ScenarioPlanningJune09.pdf

Put Our Experience To Work For You

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