



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

# Newsletter

November 09

## Is The Economic Recovery Gaining Strength?

The answer is yes. Eight of the ten components of the Conference Board's U.S. Leading Indicators increased month over month in September. The two indicators that declined were building permits and manufacturing hours. In spite of these two important areas lagging behind, the Conference Board's U.S. Leading Indicators hit a 41 month high, indicating 2010 will see real economic growth.

Similarly, the October 2009 Purchasing Managers 1/12 (year over year) Index rate of change hit 43.9%, its highest reading in over 25 years. This also indicates real improvement can be expected in 2010. *Does all of this mean the economy will return to "normal" in 2010?*

The answer is no. The reason that the Purchasing Managers Index rate of change rose so dramatically and should continue to do so for the next

several months is that the Purchasing Managers Index hit such extraordinarily low levels during the fourth quarter of 2008.

While the Purchasing Managers Index was near a 3½ year high, at 55.7 in October, this was the result of holiday season inventory replenishment boosting production. With building permits and manufacturing hours lagging at the same time that production increases are driven by inventory replenishment rather than by substantially increasing consumer demand, it is clear the 2010 recovery is different from prior recoveries.

*What will the 2010 recovery look like?* Different industry segments will experience this recovery quite differently. **There are lagging parts of the economy that are likely to stay in recession mode throughout 2010.** Take office building and commercial building construction, for example. Office building permits for new construction are at all time lows having declined by 51% year over year. Office vacancies have risen to the highest level since 2003.

Put Our Experience To Work For You

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

© Copyright 2009, L. R. Levin Consulting, L.L.C.. All Rights Reserved.



At present, unemployment continues to increase, and is reflected in office employment decreasing by 2.4%. The result is that vacant office space has increased by more than 22.0%. So it is no surprise, we expect office construction will continue to be in recession through 2010 and into 2011.

Similarly, commercial construction has seen a more than 50% drop in building permits and an increase in vacant space of more than 25% year over year.

There are approximately one half trillion dollars in commercial real estate loans coming up for refinancing in the next two years. Many of these do not, under current standards, qualify for conventional refinancing.

There are only three places that increased economic activity can come from for a broad based recovery. It must come from consumer spending, business spending, or government spending. When consumer spending drives a recovery we expect to see a broad based recovery that becomes self sustaining, generating real continuing growth.

***Will consumer spending drive the economy in 2010?*** In the most recent economic recoveries from 1980 through 2008, the consumer has

played the dominant role. In 2010, the fact that we have had such a high rate of unemployment for such a sustained period makes it hard for consumer spending to drive the recovery. Presently, the real level of unemployment is over 27 million people or nearly 18% of the work force and growing.

At this stage in a “normal” recovery, we should be seeing the pent up demand returning to help create a “V” shaped recovery across a broad spectrum. While we are seeing signs that the pent up demand is beginning to help retail, the consumer is not returning as the same consumer we saw in 2007-2008.

The high level of unemployment continues to drain significant purchasing power from the economy. The consumer is looking for bargains and being very cautious about their spending. Many still fear that they may lose their jobs. At this point the consumer is not positioned to lead us out of the recession. The hope is that as things stabilize we will begin to see unemployment reduce.

***Will business spending drive the economy in 2010?*** The second source of support for an economic recovery is business spending. Like the

---

Put Our Experience To Work For You

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

© Copyright 2009, L. R. Levin Consulting, L.L.C.. All Rights Reserved.

consumer, business is being very cautious. Those businesses that are experiencing recovery and have remained profitable have done so through a combination of actions.

For one, business has cut payrolls dramatically to reduce costs. Manufacturers and distributors are using overtime hours and part time employees to replenish inventory, treating the increased level of demand as possibly temporary. For other businesses, alternative revenue sources have provided the growth and revenue stability needed to weather the storm.

Either way, if we have a flat recovery, increased profits will come from having adjusted to a lower long term demand model, not growth. That is not the type of business climate that generates major increases in aggregate business spending. Those segments that stabilize or grow will buy more and those that remain or sink further in recession will buy less.

***Will government spending drive the economy in 2010?*** The third source of support for an economic recovery is government spending. Besides federal direct spending, the Federal Reserve can influence the economy through monetary policy.

In spite of the sizable stimulus package passed this year, government spending has contributed relatively little so far to the recovery. However, the government in 2010 is slated to spend a substantial portion of the remaining stimulus funds. This could have a favorable impact on selective portions of the economy's performance during 2010. This type of spending does not by itself create a "normal" recovery.

In a "normal" recovery we see a broad based increase in economic activity creating many opportunities for business growth. The fact that the economy is stabilizing and entering into a real recovery is a testament to the strength of the underlying economy and its resilience, not government spending.

The government spending for 2010-2011 is essentially targeted toward specific programs. These programs were not chosen based on how they would broadly affect fundamental economic underpinnings of the economy or produce growth. When the spending stops so will the stimulus. [See the \*Managing for Success\* article on Stimulus.](#)

A critical component of today's economy are the thousands of entre-

---

Put Our Experience To Work For You

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

© Copyright 2009, L. R. Levin Consulting, L.L.C.. All Rights Reserved.



preneurial businesses that have generated 80% of the growth in employment and the economy over the past 20 years. Few, if any, of the government spending programs have been targeted to help these entrepreneurial businesses.

In fact, most of the activity of the federal government, including the Federal Reserve (the "Fed"), have been aimed at giant corporations or institutions.

Take for example, the TARP program that bailed out banks. Many of those large banks used the liquidity to finance large companies doing business overseas. Bank of America and others, for example, made multibillion dollar loans to finance plant construction for U.S. companies in China.

The federal government is financing green projects that build wind farms in places like Texas. Most of the key components are manufactured in China! Often it appears that lack of foresight has converted many taxpayer dollars to stimulating the Chinese economy.

The Fed has not used the TARP funds or its powers, so far, to help small regional banks that hold much of the office or commercial debt that may go bad. Nor has the Fed funded

substantial amounts for a broad based mortgage refinance program at lower more affordable rates. The Fed has mainly helped mega banks while leaving smaller banks at risk.

More than 115 smaller banks have already perished this year. The Fed has also left mortgage refinancing in jeopardy. Most lenders are thus not able to help those becoming under employed or unemployed creating a whole new tier of defaulting mortgages.

Most of the rest of the stimulus spending for 2010-2011 are on one time projects that, when the spending stops, the jobs go away. The good news is that for those segments of the U.S. economy where this spending is directed, 2010 should continue to see improvement.

The bad news is that this will cause different economic segments to experience the recovery differently. A jobless recovery would mean that for more than 27 million Americans, they will remain in a depression.

For the up lifting economic activity of 2010 to become a broad based growing recovery continuing into 2011, consumer and business spending must return.

---

Put Our Experience To Work For You

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

© Copyright 2009, L. R. Levin Consulting, L.L.C.. All Rights Reserved.

# Will Healthcare Reform Lower The Cost Of Doing Business And Create Jobs?

A recent review of the House version of the Healthcare Reform bill (H.R. 3962) found it contained over \$729.5 Billion in tax increases.

These included, among others:

a small business surtax (sec. 551, p. 336) \$460.5 billion; an employer mandate tax (Secs. 511-512, p. 308) \$135 billion; individual mandate taxes (Sec. 501, p. 296) \$33 billion; a medical device tax (Sec. 552, p. 339) \$20 billion; a new \$2,500 annual cap on flexible spending accounts (Sec. 532, p. 325) \$13.3 billion; a prohibition on pre-tax purchases of over-the-counter drugs using flexible spending accounts or health reimbursement arrangements (Sec. 531, p. 324) \$5 billion; and a tax on health insurance policies to fund the comparative effectiveness research trust fund (Sec. 1802, p. 1162) \$2 billion.

It would defy reality to think that the \$729.5 Billion in tax increases would not adversely impact small

business and employment. How could the government collect \$20 billion in tax on medical devices without the medical device manufacturers raising the price of the devices to consumers? Or what about the \$460.5 billion small business surcharge?

Does anyone really think that removing \$460.5 billion in liquidity from small businesses will make them more competitive or enhance their ability to increase employment? The healthcare reform bill is but one of many federal tax increases being considered for 2010-2011 in addition to letting the Bush tax cuts expire.

All of these tax increases would further withdraw buying power from the economy. That is the wrong direction if we are to revive consumer and business spending, and with that restore real growth to the economy.

By timing these taxes to primarily hit at the end of 2010 or beginning of 2011, it gives the economy the chance to stabilize and further grow in 2010.

What no one can predict is whether stabilizing at such a reduced level of activity will give breathing room to small businesses or be the final blow that sees a major reduction in this vital area of the economy in 2010.

---

Put Our Experience To Work For You

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

© Copyright 2009, L. R. Levin Consulting, L.L.C. All Rights Reserved.

## THE WISE OLD OWL

## What Does This Mean For Your Business



Our strategic partner, the Institute for Trend Research, said in its October Report, “Recessions are a painful part of the economic process but they can be used to our advantage. This is a great time to think strategically about the next five to seven years and figure out what kind of business you want to evolve into. Assume everything is in motion and capable of change. After you have accomplished this

monumental task, establish shorter-term tactical goals that will keep you on track toward achieving this strategic vision. It is time to shift from survival thinking or a bunker mentality to contemplating the ways you want to morph to meet the opportunities on the upside of the business cycle.”

That is good advice. It is important for you to now update your strategic plan for the next 5 to 10 years. That strategic view will tell you where you need to be to create strong revenues and real profits going forward. But that is only the first step.

The long term plan must be coupled with a Strategic Action Steps Plan for the next 12 to 18 months. The segment of the economy that your business is part of, may or may not change in the same way as the general economy. In fact, it is likely that your segment of the economy will go through several different scenarios before 2010 is over. [Click Here to read the \*\*Managing for Success\*\* article on \*\*5 Scenario Planning\*\*.](#)

You need to have planned your key action steps now, if you are to be able to navigate the changing strands of the economy as they rapidly develop over the next 8 to 12 months. What is certain is that there are some real waves ahead and knowing how to set and adjust your course will make a big difference.

Given all the moving parts that can and will effect what actually happens in the economy over the next 12 months, only by taking advantage of the Strategic Action Steps Workshop approach can you really protect your company and be ready for the opportunities coming down the road. Just ask our growing clients.

[Click Here For More Information On \*\*Action Steps Workshops\*\*](#)

Put Our Experience To Work For You

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

© Copyright 2009, L. R. Levin Consulting, L.L.C.. All Rights Reserved.